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**NATIONAL HUMAN DEVELOPMENT
REPORT 2013:**

**‘PEOPLE ARE THE REAL WEALTH
OF THE COUNTRY.’
HOW RICH IS MONTENEGRO?**



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By the United Nations Development Programme (UNDP) in Montenegro

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Abbreviations

GDP	Gross Domestic Product
MASA	Montenegrin Academy of Science and Arts
CBM	Central Bank of Montenegro
CIS	Commonwealth of Independent States
EBRD	European Bank for Reconstruction and Development
EU	European Union
FAKT	Fund for active citizenship
FDI/SDI	Direct foreign investments
FTE	Full time employment
HIF	Health Insurance Fund
GERD	Expenditures for research and development
GNI	Gross National Income
HDI	Human Development Index
ICT	Information and communication technologies
R&D	Research and Development
MONSTAT	Montenegro Statistical Office
SME	Small and medium-sized enterprises
MH	Ministry of Health
NATO	North Atlantic Pact (North Atlantic Treaty Organisation)
NGO	Non-governmental organisation
OSCE	Organisation for Security and Cooperation in Europe
PEP	Pre-accession Economic Programme
PISA	Programme for International Student Assessment
PPP	Purchasing power parity
TIMSS	Trends in international studies of maths and natural sciences
UN	United Nations
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
WHO	World Health Organisation



Foreword

It is my pleasure to present to you the National Human Development Report 2013: 'People are the real wealth of the country.' How rich is Montenegro?, dedicated to the topic of the human capital of Montenegro. Human capital plays a crucial role in pursuing the objectives of human development as human development is about expanding people's choices. These choices are diverse but the most fundamental are the choices to lead a long and healthy life, to be educated and to enjoy a decent standard of living. Increased global competition means that Montenegro will not be able to compete on cost and price, and as all European countries, will have to offer high quality products and services. This is achievable only if the country's human capital improves. A well-educated and trained population is an objective in itself as well as a crucial factor contributing to accelerated social, economic, and ultimately human development.

At the societal level, human capital development results in the increased ability of a country to absorb modern technology, improved quality and productivity of the workforce, which invariably leads to increased productivity and economic growth that are fundamentally important for human development. At the individual level, it is the key to a successful career in a modern knowledge-intensive economy. Improved individuals' skills and knowledge have become increasingly important as they help to fulfil individual needs and aspirations, maintain social networks, pursue healthy life choices and achieve a wide range of other goals. Economic growth achieved through improved HC not only results in increased household incomes but increases budget revenues that can be allocated for important social priorities that expand human development opportunities for all. Montenegro made progress over the last ten years in terms of human development measured by the Human Development Index (HDI), which is a summary measure for assessing long-term progress in three basic dimensions of human development: a long and healthy life, access to knowledge and a decent standard of living. Montenegro belongs to the group of countries with high human development and it ranks 54th in the world by HDI (2011).

This Report was developed by a team of national authors, headed by lead author Ms Bozena Jelusic. The team had advisory support from international specialists, the CEED Montenegro team that conducted extensive quantitative and qualitative research and analysis, guidance from the NHDR advisory board, and the 'voice of the people' from public discussions. Moreover, besides this paper version of the report there is a kind of NHDR TV edition. The TV edition is actually twenty-seven one-hour TV talk-show serials in which ordinary citizens, simulating a focus group, discuss topics raised in the NHDR. We thank Atlas TV for their initiative and resources and for their decision to bring the NHDR to the ordinary citizen. We are aware that large paper reports are not likely to reach the ordinary citizen and that the vast majority do not read long paper reports. The NHDR TV edition is the first ever HDR TV edition globally but it is close to my heart precisely because it has reached every Montenegrin home and citizen.

Politicians, probably in every country, tend to repeat that 'people are the real wealth' of their countries. What exactly it means, how this wealth is being accumulated and utilised is always an open issue with explicit practical and political implications. Thus, the Report tries to respond to some crucial issues such as: who are we? what do we want to achieve? what do we need to succeed in the 21st century? In doing so we are referring to the institutional aspects and mechanisms for the formation and utilisation of human capital reflecting the country's long-term development vision and priorities.

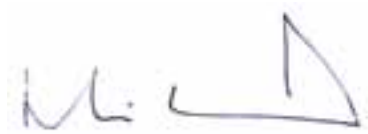
What is human capital? The human capital of Montenegro is not only the employed but also the unemployed, housewives, poor and rich, children, young and old and those who are still to be born. Human capital is dynamic and traditional elements (knowledge, skills, health) are an individual's potential but the extent to which it will (or will not) materialise depends on many other characteristics. Some of these characteristics are the ability to apply knowledge, experience, heritage, skills, health, values, and aspirations, social capital that is an integral part of who we are but also of our flexibility, ability to accommodate a changing environment, innovativeness, entrepreneurship, risk taking, proneness to solidarity, etc. i.e. of all dimensions that make us productive in both economic and non-economic terms. Being so widely defined it is difficult to 'measure' human capital as these components are problematic to quantify.

On Montenegro's path to EU accession the issue of human capital will be gaining increasing significance as it is an essential condition for the success of Montenegro's integration into Europe. The Report argues that human capital cannot be enhanced merely by public spending increases in education and health as it takes a far more sophisticated approach. It takes aligned cross-sector structures, legislative framework, policies, instruments and programmes primarily in the sectors of employment, health, education as well as in some others for maximising outputs of investments in human capital. Human capital creation should become a strategic priority of a society. The Government and private sector should strategically invest in human capital development that will create new jobs, develop new skills and competencies and can help Montenegrins work and live happily in Europe in the 21st century.

Some of you have asked us: So, what is the conclusion? *Are the people the real, the greatest wealth of Montenegro? and What shall we do now to have human capital for the Montenegro of tomorrow?* I am personally convinced that Montenegro is a very rich country and that Montenegro's greatest wealth is not only its physical capital but also its people, its human capital. We developed the Report in this spirit and I truly hope that it will trigger all of you to revisit the importance and priorities concerning human capital. 'The future is now', thus, I urge not only decision-makers but private sector, civil society actors, academia, Parliament, and the media to reconfirm the country's commitment to create a greater future for us and for generations to come.

Rastislav Vrbensky

UN Resident Coordinator &
UNDP Resident Representative
In Montenegro



Podgorica, Montenegro
December 2012



Chapter 1:

Human Capital and Human Development: Two Complimentary Concepts

Human development of all can be achieved only through improving the country's human capital.

Purpose of the Report

Over two decades of transition and current crisis of socio-economic development influenced by global economic crisis had a strong impact on the transformation of human capital in Montenegro. This transformation included “draining” of human capital from this region as a result of extensive emigration, particularly during the war in the neighbouring countries, and the change in the structure of human capital and mechanism for its establishment. Not only politicians, but also owners of companies oftentimes say that “people are the greatest wealth” of a country and of an enterprise. For that reason, this National Human Development Report is about Montenegro's human capital. Increased need for competition at the global level means that Montenegro will not be able to compete solely on the basis of low cost and price, and that it will have to offer high quality products and services as all the other European countries. This is achievable only if the country's human capital improves. A well-educated and trained population is an objective in itself as well as a crucial factor contributing to accelerated socio-economic and consequently to human development in Montenegro.

How do you see Montenegro in 2030, what will be the main issues, how do you see it joining the EU?

As a small and open member of the EU, with educated people with more knowledge than they have now, our way of thinking will need to change, as well as our ways of working, organising our lives and behaviour; we'll need to accept a lot more obligations.

UNDP Qualitative Study 2011. In-depth Interview, the Montenegro Business Alliance

The educational process and working experience enable us to acquire various talents and skills by undertaking various activities. Although these activities cost and require individual and societal investments, they produce benefits in the future and contribute to a country's progress. Numerous studies have confirmed that investment in such important components of human capital as formal schooling and training have positively contributed to the development of countries.

This Report aims to offer an answer to a wide range of questions about human capital and its role in our country's human development and in Euro-Atlantic integration. Montenegro officially applied to join the EU on 15 December 2008. On 17 December 2010 Montenegro received official EU candidate status that makes it necessary to adopt some elements of the EU's strategies and policies related to human capital. The country puts a high priority on European integration and has achieved good progress in the reform process¹. Is the human capital that we inherited from the socialist era adequate for the 21st century and is it capable of supporting the EU integration processes? How large is it and what is our current human capital? Is it sufficient to increase investments into key sectors contributing to human capital such as health and education, in order to achieve sustainable economic growth rates and accomplish human development of all? Should the state be responsible for building and improving the human capital in Montenegro? These are some of the core questions that we attempt to answer in this Report.

¹ European Parliament resolution of 9 March 2011 on the European integration process of Montenegro, <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7-TA-2011-0091+0+DOC+XML+V0//EN>



Since human capital can be enhanced by expanding individual opportunities in the areas of healthcare, education, social services and by providing better access to decision-making, the dilemma remains as to how to assess the various aspects of human capital creation and utilisation. While education and training are certainly key aspects, so are health, standard of living, access to basic services and social stability.

This Report identifies Montenegro-specific components of human capital and assesses the country's progress in human capital creation and utilisation. The development of human capital is examined through the lenses that offer a comprehensive and diverse analytical perspective to identify mechanisms leading to human capital development. As a result of application of human development perspective, more comprehensive, multidimensional and better targeted recommendations and interventions promoting human capital development opportunities have been developed and recommended.

It is our special attention to underline the relevance of those parts of the society which are deprived or whose potential is locked due to systematic discrimination which is often neglected, while having direct link to human capital development. For example, being unable to apply for loans, due to the lack of potential mortgages, human capital development triggered by flourishing women's entrepreneurship is permanently limited. Also, the diversity of the ethnic structure of Montenegrin citizens should be seen as an advantage and not as a limitation for human capital development, etc.

Human Capital: Evolution of the Concept

The importance of human capital to economic growth and development has long been recognised in economic literature. Adam Smith defined HC as the acquired and useful talents of inhabitants and argued that human skills increase wealth for society as well as for the individual.²

Human capital is essentially viewed in literature as an individual asset, defined in terms of skills, competences and qualifications. It may include non-cognitive skills, and can be acquired in a variety of settings, certainly not only in formal education. Human capital is measured to assess the quality of workforce and there are numerous studies confirming that improvements of human capital positively contribute to a country's technological advancement and increase labour productivity. The importance of high-quality human capital is increasing in conditions of globalisation that require from countries to develop knowledge-based economies to stay competitive.

There are two main stages of human capital development: creation and utilisation. At the stage of creation, individuals are born with a set of physical, intellectual and psychological capacities that are further developed through family, education system and social environment. If an individual's abilities are not developed during their period of youth, then they will face significant barriers to expand opportunities in the adulthood. To be competitive, individuals should develop knowledge and skills throughout their lifetime.

How do you see Montenegro in 2030?

It is all hard to predict. Certainly, everything will be different and new kinds of knowledge will be required from workers. Thus, it is necessary that students have practical education, because based on that experience they are able to see things they will be asked to do and they would get familiar with new technologies used today.

UNDP Qualitative Study 2011. In-depth interview, the Ministry of Education and Sport

Effective utilisation of human capital is as important as the creation stage. The nation may possess high-quality human capital, but underutilise it or use it ineffectively. Economic and technologic changes may make some jobs and skills obsolete. Transitional Russia, Ukraine and other members of the Commonwealth of Independent States (CIS), for example, have underutilised their post-USSR potential in human capital-intensive sectors. In these countries, policy makers, technical advisers and international investors have continuously ignored high levels of human capital in information and advanced technologies as they instead focused on more traditional sectors such as extractive and metallurgical industries.

² Smith, Adam (1776): An Inquiry into the Nature and Causes of the Wealth of Nations, Book 2 – of the Nature, Accumulation, and Employment of Stock

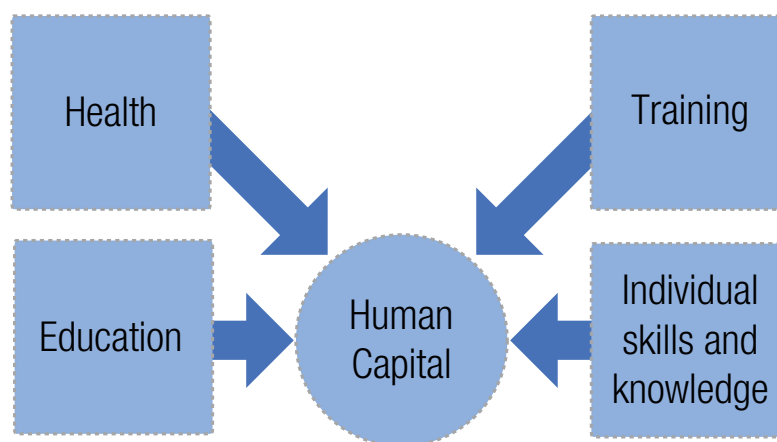


We must understand that uncertainty is a characteristic of the global market, and that a “safe” and permanent job does not exist any longer as a category.

UNDP Qualitative Study 2011. In-depth interview, the dean of the University of Donja Gorica

There is a common agreement that education and skills are fundamental components of human capital, but a commonly accepted definition of human capital does not exist. The Organisation for Economic Co-operation and Development (OECD) defines human capital as productive wealth embodied in labour, skills and knowledge³. Broadly speaking, human capital can be seen as the knowledge, skills, competencies and attributes embodied in individuals that facilitate the creation of personal, social and economic well-being. Traditional indicators used by OECD to measure HC are duration of schooling and levels of qualification, but it is widely acknowledged that these measures are far from capturing the extent of human capital as an individual can acquire knowledge and skills in various and often non-formal venues (see Figure 1.1).

Figure 1.1: Traditional Model of Key Elements of Human Capital



The European Union defines human capital as “the abilities, knowledge and skills embodied in people and acquired through education, training and experience”.⁴ The Lisbon Council for Economic Competitiveness and Social Renewal has developed the European Human Capital Index that includes four main components:

- **Human capital endowment** - this figure measures the cost of all types of education and training per inhabitant of working age.
- **Human capital utilisation** - this figure looks at how much of a country’s human capital stock is actually deployed.
- **Human capital productivity** - this figure measures the productivity of human capital by dividing a country’s total consumption by all of the human capital employed in that country.
- **Human capital demography and employment** - this figure looks at existing economic, demographic and migratory trends to estimate the number of people who will be employed in 2035.

Nobel laureate Gary Becker views investment in an individual’s education and training as a counterpart to business investments in equipment.⁵ Becker argues that human capital can be increased through schooling, information and communication technology (ICT) training opportunities, and improvements of healthcare. Owing to the methodological individualism and cost-effectiveness, Becker managed to explain a plethora of economic and social phenomena by actual relying on the concept of human capital. By applying an economic approach, he explained how different phenomena such as smoking, drug addiction, commitment to the church, divorces, violence, patriotism and national propaganda impact individuals and their decisions, ultimately impacting human capital.

³ OECD online dictionary of statistical terms available at <http://stats.oecd.org/>

⁴ Lisbon Council Policy Brief “Innovation at Work: The European Human Capital Index” by Peer Ederer

⁵ For more details see Gary Backer “Human Capital: A Theoretical and Empirical Analysis, with Special Reference to Education” (1964)

Human Development: Evolution of the Concept

This Report examines human capital from the perspective and through the lens of human development. United Nations Development Programme (UNDP) released the first Human Development Report in 1990. It introduced a concept of human development that set itself apart from previous development theories by arguing that economic growth does not automatically trickle down to improving people's well-being and that people are the real wealth of nations. Human development goes beyond the goals of poverty reduction and also takes into consideration those who are not poor but may be illiterate, discriminated or do not have access to health care or the education system.

Human development is about expanding people's choices. These choices are diverse but the most fundamental are the choices to lead a healthy and long life, to be educated and to achieve a decent standard of living. Other choices may include freedom of expression, association and movement as well as social justice and protection against discrimination based on racial, religious or ethnic origins; and the ability to influence decision-making and contribute to society's life. People's choices are affected by a wide range of factors, like individual values, skills and abilities, a country's economic and political environment, accessibility of education and health services as well as international developments. Regardless of individual preferences, people would like to live in an environment where they can develop their full potential and lead productive, creative lives in accord with their needs and interests. Human development takes as a starting point the fact that the purpose of development is enlarging people's choices. As these choices can be infinite and can change over time, human development cannot be reduced to income or economic growth.

People are the main resource, then come material, natural resources and everything that is a product of work in one community and, of course, technology. Montenegro would be a rich country if it weren't for its internal divisions, as the mentality of our people jeopardises the potential we have.

UNDP Qualitative Study 2011. In-depth interview, the Association of Pensioners of Montenegro

Human development is not only about freedoms of human choice, it is about freedoms to participate; it enables people to become agents in their own lives and in their communities and countries. As Sen pointed out, "the people have to be seen ... as being actively involved – given the opportunity – in shaping their own destiny, and not just as passive recipients of the fruits of cunning development programs"⁶. People should have the freedom to pursue their life choices, make decisions in matters important for their lives, and have the freedom to influence decision-making in their communities and countries.

Individuals can become agents and pursue choices that they value when they are empowered and participate in various dimensions of a society's life. Effective participation is possible when people have the freedom to be educated, to express their views publicly without fear, to have access to independent media and to participate in their society's life through established democratic institutions. Empowered citizens acting through democratic institutions can trigger a virtuous cycle of development—political freedom empowers people to press for policies that expand social and economic opportunities, while open debates help communities shape their priorities. For example in the reform of a social welfare system, effective human development can occur when welfare recipients, their children, the local community, non-governmental organisations (NGOs), the media, the Ministry of Social Protection, the Ministry of Finance, and advocacy groups are involved. Whether at the level of policy-making or implementation, people have to participate at every stage as agents who are able to pursue and realise their choices.

Human Development: Classic Definition

The basic purpose of development is enlarging people's choices. In principle, these choices can be infinite and can change over time. People often value achievements that do not show up at all, or not immediately, in income or growth figures: greater access to knowledge, better nutrition and health services, more secure livelihoods, security against crime and physical violence, satisfying leisure hours, political and cultural freedoms and sense of participation in community activities. The objective of development is to create an enabling environment for people to enjoy long, healthy and creative lives.

Mahbub ul Haq (1934-1998) - Founder of the Human Development Report

⁶ Sen, A.K. 1999. *Development as Freedom*. Oxford University. p.53



The concept of human development, formulated two decades ago, has evolved over time. In 2010, UNDP released its Human Development Report 2010, *The Real Wealth of Nations: Pathways to Human Development* that marks the twentieth anniversary of the human development paradigm. The 2010 Report introduces a refined definition of human development which is seen as “the expansion of people’s freedoms to live long, healthy and creative lives; to advance other goals they have reason to value; and to engage actively in shaping development equitably and sustainably on a shared planet. People are both the beneficiaries and the drivers of human development, as individuals and in groups.”⁷

Human Development of Montenegro: Key Trends

Montenegro established itself as an independent state and numerous reforms of the economy, education, healthcare and social protection systems were implemented. There was a significant increase in foreign direct investment. The services sector in such areas as tourism and tourism-related activities has expanded, while considerable growth has been recorded in the real estate sector. A significant share of enterprises was privatised, the Euro was introduced as the official currency, and prices were liberalised. As a result of numerous reforms, Montenegro achieved rapid economic growth that allowed the Government to increase its allocations for education and healthcare.

According to the global UNDP Human Development Report 2011, Montenegro has made progress over the few last years in terms of human development measured by the Human Development Index (HDI), which is a summary measure for assessing long-term progress in three basic dimensions of human development: a long and healthy life, access to knowledge and a decent standard of living. Between 2005 and 2011, Montenegro’s HDI value increased from 0.757 to 0.771, an increase of 2.0% or average annual increase of around 0.3 %.

Table 1.1 reviews Montenegro’s progress in each of the HDI indicators. Between 1980 and 2011, Montenegro’s life expectancy at birth increased by 0.9 years. Moreover, Gross National Income (GNI) per capita increased by about 24.0% in the period between 2005 and 2011.

Table 1.1: Montenegro’s HDI trends based on consistent time series data, new component indicators and new methodology

	Life expectancy at birth	Expected duration of schooling (years)	Mean duration of schooling (years)	GNI per capita (2005 PPP \$)	HDI value
1980	73.7	..	..	..	..
1985	74.4	..	..	..	..
1990	75.5	..	..	..	..
1995	75.9	..	..	..	..
2000	74.9	..	..	..	..
2005	74.1	13.7	10.6	8,340	0.757
2010	74.4	13.7	10.6	10,121	0.769
2011	74.6	13.7	10.6	10,361	0.771

Source: UNDP. (Global) Human Development Report 2011

The HDI is an average measure of basic human development achievements in a country. Like all averages, the HDI masks inequality in the distribution of human development at the country level. To address this limitation, Human Development Report 2011 introduced the ‘inequality adjusted HDI (IHDI)’, a new measure for a large number of countries which takes into account inequality in all three dimensions of the HDI by ‘discounting’ each dimension’s average value according to its level of inequality. Montenegro’s HDI for 2011 is 0.771. However, when the value is discounted for inequality, the HDI falls to 0.718, a loss of 6.9% due to inequality in the distribution of the dimension indices. Latvia and Lithuania show losses due to inequality of 10.9% and 9.8% respectively. The average loss due to inequality for high HDI countries is 20.5% and for Europe and Central Asia it is 12.7 %.

⁷ UNDP. 2010. *Human Development Report. The Real Wealth of Nations: Pathways to Human Development*. New York.

Table 1.2: Montenegro's HDI indicators for 2011 relative to selected countries and region

	HDI value	HDI rank	Life expectancy at birth	Expected duration of schooling (years)	Mean duration of schooling (years)	GNI per capita (PPP US\$)	Inequality adjusted HDI	% loss in HDI due to inequality
Montenegro	0.771	54	74.6	13.7	10.6	10,361	0.718	6.9
Serbia	0.766	59	74.5	13.7	10.2	10,236	0.694	9.4
Croatia	0.796	46	76.6	13.9	9.8	15,729	0.675	15.2
Bosnia and Herzegovina	0.733	74	75.7	13.6	8.7	7,664	0.649	11.5
FYR of Macedonia	0.728	79	74.8	13.3	8.2	8,804	0.609	16.3
Europe and Central Asia	0.751	..	71.3	13.4	9.7	12,004	0.655	12.7
Latvia	0.805	43	73.3	15.0	11.5	14,293	0.717	10.9
High HDI	0.741	..	73.1	13.6	8.5	11,579	0.590	20.5

Source: UNDP. Human Development Report 2011

Human Development and Human Capital Concepts: Exploring the Relationships

Both human development and human capital concepts are about improving opportunities and well-being of individuals. Both concepts put people at the centre and address the goals of people's development by supporting realisation of the potential of all people, including the vulnerable groups through a series of institutional, policy and programme interventions.

The differences in human development outcomes across countries can be attributed to many factors such as differences in natural resource endowment, the stock of physical capital, economic and political systems and to a large extent to the human capital characteristics.

The OECD⁸ notes that one of the significant reasons for growing unemployment and underdevelopment of economies is the failure to manage human capital, while it also urges for this important resource to be developed. This confirms an increasingly present mindset that the difference between developed and less developed countries in the age of knowledge is less the result of advantages involving natural resources and wealth, and more the result of strategic investment in the development of human resources. Human capital development, investment in education and motivation are in much greater positive correlation with the level of countries development in the world than variables related to tangible assets, which is also presented in the following table.⁹

Table 1.3: Structure of global wealth by incomes of the countries, %

Groups of countries	Natural capital	Manufactured capital	Human capital and intangible assets
Low income	29	16	55
Lower-middle income	19	21	60
Upper-middle income	15	23	62
High income OECD	3	17	80

Source: WB (2006) *Where is the Wealth of Nations? Measuring Capital for the 21st Century*

8 OECD Jobs Strategy <http://www.oecd.org/>

9 WB (2006) *Where is the Wealth of Nations? Measuring Capital for the 21st Century*, p. 26



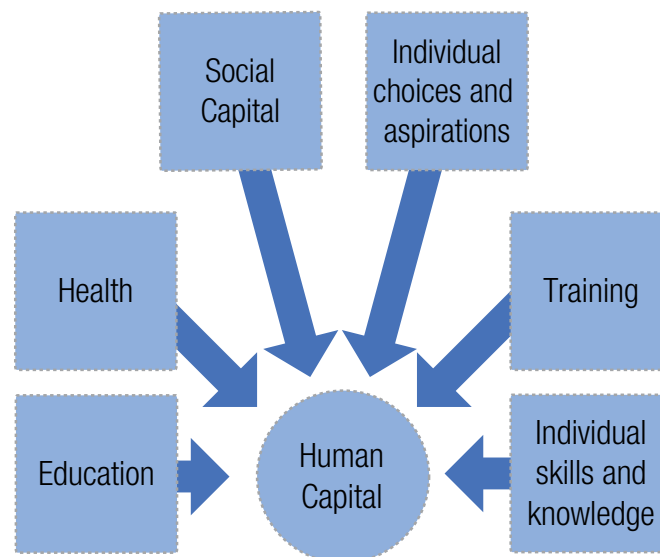
Data reveals that the share of natural capital in total wealth is considerable in underdeveloped, low-income countries, while highly developed countries are dominated by human capital and intangible assets. The share of human capital in the group of highly developed countries accounts for up to 86%, for instance in Belgium, where, on the other hand, the share of natural capital accounts for merely 1%. The share of natural capital total wealth of the underdeveloped countries accounts for up to 60%. We can see in the example of developed countries that long-term development nowadays depends almost completely on the quality of human capital. Therefore, utilisation and development of human capital represents a primary factor of development.

To put it simply, high levels of human development cannot be achieved when a society lacks the adequate levels of human capital. **A well-educated and trained population is an objective in itself as well as a crucial factor contributing to accelerated social and economic and therefore human development.**

Numerous studies have confirmed that investment in important components of human capital, such as formal schooling and training, have positively contributed to the growth of (developed) countries. It has been proved that effective investment, institutional and policy support of human capital are key components of long-term economic growth and increased productivity. In some OECD countries such as Denmark and New Zealand, earnings for workers with a university education are almost a quarter higher than for those who only finished secondary school. In others, this differential is even more noticeable, and rises to as much as 120%. Economies also benefit from an educated labour force: research shows that companies may, over time, experience a 3% to 6% rise in output for every additional year that individuals spend in education.¹⁰

Human capital development results in the increased ability of a country to absorb modern technology, improved quality and productivity of the workforce, which invariably leads to increased productivity and economic growth that are fundamentally important for human development. At the individual level, earnings tend to increase quite sharply as an individual's level of education rises. Economic growth achieved through improved human capital not only results in increased household disposable incomes but increases budget revenues that can be allocated for important social priorities that expand human development opportunities for all.

Figure 1.2: Human Capital: Expanded Model



Well educated individuals make right, informed health and education choices for themselves and their children. They, for instance, smoke less and exercise more and are better able to prevent and sooner detect diseases. They are more active in the community and the society's life and are more likely to volunteer for community groups that further enhance the human development of all.

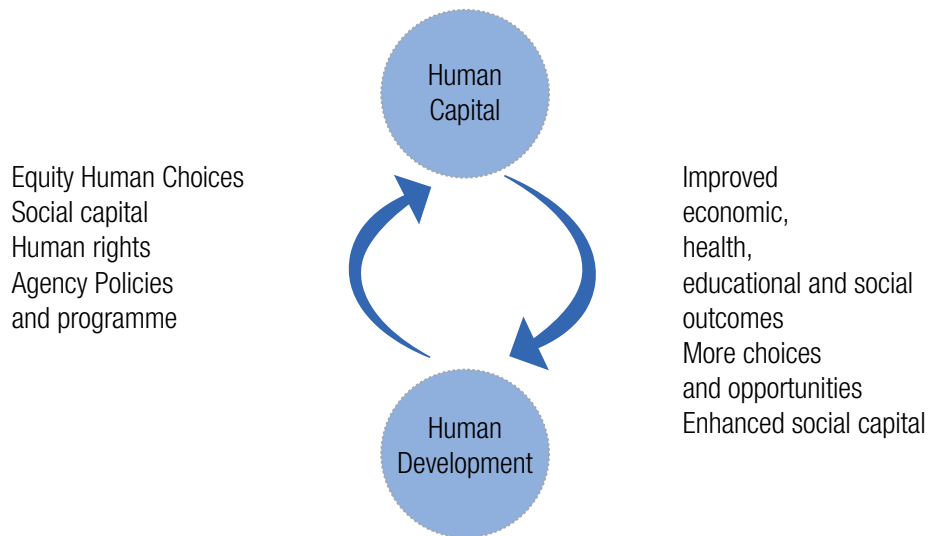
¹⁰ OECD. Policy Brief. July 2007. *Lifelong Learning and Human Capital*.

Health is traditionally targeted in parallel with education in government policies concerning human capital development. There is a symbiotic nexus between health and education. The population must be healthy to effectively utilise its skills and knowledge. Most countries try to continuously improve the provision of public health, education and social welfare services to enhance the quality of life of their citizens and increase their human capital.

It is insufficient to expand the opportunities in the areas of education and health as individuals have a broad range of needs and aspirations (see Figure 1.2). Since health, educational attainment, and involvement into social life affect the level of country's human capital, there is a need to examine the extent and nature of policy interventions aimed at human capital development. **The human development perspective adds value to human capital concept by identifying barriers and opportunities for human capital development that lie beyond traditional education and health sectors.** It is not enough to subsidise primary education and invest into healthcare and expect that human development opportunities of citizens will automatically improve.

The available research confirms the importance of going beyond education and health to promote human capital development. A wide range of factors explains differences in human capital creation and utilisation where differences in social infrastructure across countries play a significant role.¹¹ Such social infrastructure includes the institutions and government policies that shape the economic environment, within which individuals accumulate skills and firms operate. Lack of a social infrastructure conducive to effective human capital creation and utilisation causes loss in production and ultimately limits human development opportunities for all (see Figure 1.3).

Figure 1.3: Human Capital and Human Development: One is Impossible Without the Other



Humans make their life choices through social interactions. This NHDR capitalises on this idea and introduces a social capital dimension to analyse and measure Montenegro's human capital. Human capital creation and utilisation is a social activity as it happens through interactions of ideas and individuals. Social interactions are necessary to create and utilise human capital. Robert Putnam, for example, views social capital as networks and norms of civic engagement.¹² Without participation in public life, feelings of trust and bonds of reciprocal helping are undermined and the ability to solve problems and sustain prosperity is weakened. Putnam also argues that wealthy communities did not become 'civic' because they were rich; rather, they became rich because they were 'civic'. McDowell supports this, suggesting that quality civic relations encourage confidence and entrepreneurial initiatives.¹³ There is a significant scope of research confirming positive relations between vibrant social networks and such outcomes

11 Hall, R. E. & Jones, C. I. 1999. "Why do some countries produce much more output per worker than others?" *The Quarterly Journal of Economics* 114 (1), 83-116.

12 For more details see Robert Putnam *Bowling Alone*, 2000

13 McDowell, G.R. 1995. "Some communities are successful, others are not: Toward an institutional framework for understanding the reasons why". In D.W. Sears and J.N. Reid, *Rural Development Strategies*. Chicago, Nelson Hall.

critical to human capital such as better school performance, lower crime rates, and better public health. At the same time, they contribute to a better human development.

Human development concept adds the equity perspective to analysis of human capital. Restrictions in any area of human capital development are detrimental to the freedom of choice, the core of human development. Do all Montenegrins have comparable opportunities to participate in formal education and training, to access healthcare and social support and participate in decision-making? Are there some groups such as women, Roma, people with lower incomes, people with disabilities, and long-term unemployed that have a lower probability of accessing these opportunities and services? Are the children from poorer backgrounds who underachieve in primary school, more likely to drop out of secondary school, and less likely to go on to study in university? The barriers that these groups face should be eliminated to ensure that all people have real opportunities to develop their human capital.

Measuring Human Capital in Montenegro through Human Development Lenses

Measuring human capital has always been problematic. Human capital can be enhanced through expanding individual opportunities in the areas of healthcare, education, social services and providing better access to decision-making, but uncertainty remains about how to evaluate the various aspects of human capital creation and utilisation. While education and training are certainly key aspects, so are health, standards of living, access to basic services and social stability. This Report identifies Montenegro-specific components of human capital and assesses the country's progress in human capital creation and utilisation through the lenses of human development.

Economists are often restricted by the available data in developing measures of the stock of human capital. Often their econometric analyses of the effect of human capital investment are founded on the assumption that human capital can simply be measured by the number of years of schooling. Although many econometric studies are too narrow, they convincingly demonstrate that formal schooling is a crucial factor determining salary and wages in OECD countries.¹⁴

Traditional indicators used by the OECD to measure human capital are duration of schooling and levels of qualification, but it is widely acknowledged that these measures are far from capturing the extent of human capital as individual can acquire knowledge and skills in various and often non-formal venues. Indicators that are frequently used internationally and are utilised for evaluating human capital in Montenegro include:

- characteristics of the working-age population (e.g. employment, unemployment, youth unemployment, dependency ratio);
- family (household) income;
- health conditions of the population (e.g. infant mortality, access to health services);
- levels of educational attainment;
- school enrolment, drop-out rates;
- university and college completion rates;
- participation of adults in vocation and technical education; and
- results of international assessments like the Programme for International Student Achievement (PISA) and Trends in International Mathematics and Science Study (TIMSS).

When asked where they see themselves in 2030, UNDP survey participants generally emphasised that they would live independently in their apartments or houses, have families with 2 or 3 children, and that they would live in Montenegro. Everyone emphasised that they hoped to have a safe job and career growth with more free time for their families. They plan to save money for travelling and educating their children.

UNDP Qualitative Study 2011. Young people seeking a first job, Podgorica focus group discussion

¹⁴ Cohn, E. and Addison, J. 1998. "The Economic Returns to Lifelong Learning in OECD Countries". In *Education Economics* 6 (3), pp. 253-307.

To assess human capital endowment, the Lisbon Council suggests measuring the share of complex jobs in overall employment. Complex jobs are defined as managerial positions, entrepreneurial jobs or professions that typically require a university education such as engineering, law or medical services. Across European regions, complex jobs account for around 22% of all jobs; in wealthier regions the share reaches up to 33%; in poorer regions, the percentage falls to 13%. The rationale for using this indicator is that complex, non-routine, well-paid jobs generate high economic value for the region where they are found. In addition, good jobs create more human capital via more intensive on-the-job learning than less demanding jobs, ensuring employment and high salaries and wages in the future.¹⁵

Human capital is created in different venues and is influenced by different factors. For example, occupational skills are learnt on the job, implicitly as well as consciously, while community competences are acquired through action more than through the traditional education system. Even though they keep up with the general trends and enable cross-country comparisons, traditional human capital definitions and indicators still do not reflect the realities of transitional processes in an appropriate manner.

Knowledge is “an investment that pays off the most and because of its importance we need to invest in lifelong learning.”

UNDP Qualitative Study 2011. In-depth interview, the dean of the University of Donja Gorica

Montenegro, like all post-socialist countries went through a dramatic transition where the old institutions, policies and processes of creation and utilisation of human capital were partially or fully replaced with new ones. Traditional indicators are insufficient to measure human capital in Montenegro and inform the development of policies and programmes supporting human capital development that will lead to improved human development for all Montenegrins.

The indicators that we used in this Report reflect the socialist past of Montenegro, its complex transition experiences and EU membership aspirations. In addition to commonly used indicators listed above, we present and analyse such indicators as Gross Domestic Product (GDP), GDP per capita, unemployment rates, Foreign Direct Investment (FDI), the country's ranking in World Bank Doing Business Reports, the country's progress in meeting the EU Lisbon Strategy criteria and many others. The data is often disaggregated by region, sector and gender. Sector-specific indicators captured in the Report include the budget expenditures on healthcare and education, life expectancy at birth, by gender, school enrolment, cross-country comparative PISA results, participation rates in lifelong learning opportunities, and school coverage of RAE students and other categories of children at risk of poverty and exclusion, etc.

The knowledge and skills in the area of Information and Communication Technology (ICT) are becoming ever more important for economic competitiveness, as a result of a trend that is being facilitated by the rapid spread of high-speed information technology. The report captures some aspects relevant to ICT such as coverage by internet networks, numbers of personal computers per capita and ICT skills.

How do you see your company in 10 years?

I think that we will use technology much more; this company is not conventional, so people who will be working here will have to absorb a lot more information than they do today, and a lot depends on the technology of communication among companies.

UNDP Qualitative Study 2011. In-depth interview, Montenegro Business Alliance

As social capital plays an important role in human capital development, but is not captured through the existing approaches to human capital¹⁶, this NHDR fills this gap and examines a range of indicators. The term social capital is too multidimensional that it has taken on so many meanings so that it lacks analytical precision. To measure social capital, UNDP Montenegro commissioned a survey that covered 1,297 respondents. In addition to generally used indicators such as age, activity, educational attainment, household income, etc. the survey provided answers to issues critical to social capital analysis such as respondents' desire to find a new job/change jobs, attendance of additional training opportunities over the last

¹⁵ Ederer P., Schuller P., and Willms S. 2011. *Human Capital Leading Indicators: How Europe's Regions and Cities Can Drive Growth and Foster Social Inclusion*. Brussels: The Lisbon Council, pp.8-9

¹⁶ On importance of social capital, see Putnam R. 1993. *Making democracy work: Civic traditions in modern Italy*. Princeton, New Jersey: Princeton University Press, 1993; Putnam R. 2000. *Bowling alone: The collapse and revival of American community*. New York: Simon & Schuster.



twelve months, views on income differences, levels of satisfaction with education and standards of living, views on quality of healthcare, social values that should be developed in children, aspirations, participation in the activities of civil society, etc.

Methodology

For the purpose of preparing the Report, the UNDP conducted two pieces of research in 2011 in cooperation with the research agency CEED Consulting from Podgorica. **Quantitative research** entitled “Human Development Research” was conducted on a representative sample of 1,297 adult citizens of Montenegro by using a questionnaire with over sixty questions relevant for understanding human capital in Montenegro in the framework of thematic fields referring to: general characteristics of respondents and the households they belong to, employment and job, skills, training and career advancement opportunities if the respondent was employed, satisfaction with the standard of living, confidence in institutions/public services, personal values, social capital and relationships (networks), participation in cultural life and activities outside job, migration, etc. **Qualitative research** included in-depth interviews with the representatives of institutions participating in human capital development in Montenegro such as universities, line ministries and institutions, Institute of Public Health, etc. In addition, five focus groups were established in Podgorica and Berane consisting of representatives of employees, housewives and the long-term unemployed, high school teachers and students and young people looking for a job for the first time.¹⁷

Various literature of domestic and foreign institutions and authors was consulted in the preparation of the Report, including a considerable body of research whose focus is relevant for human capital in Montenegro.

Structure of the Report

The following chapters provide extensive analysis of human capital development in Montenegro. Once the trends are examined, challenges and opportunities for human capital development are identified, the NHDR concludes with a set of very specific recommendations to advance development of human capital in Montenegro.

Chapter 2 of the Report examines the linkages between economic growth and human capital development. It contains an overview of the impact of the socialist past and transition on human capital in Montenegro. The chapter examines if the country’s current human capital can effectively meet the challenges posed by economic structural, sectoral and regional changes, global economic crisis and the country’s EU processes. Specific characteristics of human capital that should meet the demands of the labour market in the 21st century are identified and priority areas for interventions are presented.

Chapter 3 examines the education system of Montenegro and its ability to educate a new generation and re-train adults to be competitive in the EU labour market. The transition and global economic crisis demonstrated that skills that were useful and demanded in one environment can easily become obsolete when the environment changes. The chapter explores if the education system and educators have the necessary capacity, skills and training to prepare children and students for the 21st century. Particular emphasis is put on the vocational education system that prepares individuals to join the labour market. The chapter explores if the vocational educational system in Montenegro meets the demands of the job market. The chapter concludes with specific recommendations and a proposal of legislative, strategic and programmatic reforms that will improve the outcomes and impact of the education system on the country’s human capital.

Chapter 4 examines the importance of effective healthcare to human capital and analyses the impact of transition and reforms on the quality and accessibility of healthcare. Good health helps people to develop their human capital, as healthy children and adults are better able to learn and acquire new skills. The chapter identifies barriers in the healthcare system such as limited and uneven access of socially excluded groups and widespread informal payments that limit the oppor-

¹⁷ More details are contained in the Methodological Annex.



tunities for human capital development. Specific reforms focusing at enhancing system capacity, improving its financial sustainability and effectiveness, shifting the focus towards health promotion and prevention, ensuring equity in access and others are articulated.

“People and their ideas are the main capital of our country. That is why we need to invest in educations and healthcare.”

UNDP Qualitative Study 2011. Young people seeking a first job, Focus Group Discussion in Podgorica

Chapter 5 demonstrates that human capital in Montenegro is heavily influenced by the country's social capital and it is necessary to support its development to improve the country's human capital. As social capital is a very broad concept, the chapter examines social networks, levels of trust in society, and shared norms and values in Montenegro. The analysis finds that we believe that “connections and contacts” are more important for professional career than knowledge, skills and work experience, that we believe corruption is bad yet accept that it is a part of our lives and that we do not have a culture of entrepreneurship as we would rather prefer our children to work in public administration than in the private sector. We value family relations and strongly rely on their networks of family members and friends but do not believe in our abilities to influence decision-making processes and almost do not participate in civil society. We do not trust public institutions and have low levels of trust in our fellow citizens. The chapter concludes with some recommendations that can help in strengthening the social capital of Montenegro.

Chapter 6 concludes with key findings, cross-sectoral and sector-specific recommendations.

“People can't be close friends when one owns substantial capital and the other barely makes a living.”

UNDP Qualitative Study 2011. Student focus group in Nikšić

Since health, educational attainment, and involvement into social life affect the level of Montenegro's human capital, there is a need to re-examine the extent and nature of policy interventions aimed at human capital development. It is not enough to subsidise primary education and invest in healthcare and expect that human capital of Montenegro will automatically improve. To address the multidimensional complexity of factors affecting country's human capital, the chapter provides strategic recommendations encouraging all partners such as the government, civil society, businesses and all citizens to unite their efforts in improving Montenegro's human capital to enhance human development opportunities for all.



Chapter 2:

Human Capital: What Do We Have and What Do We Need to Succeed in the 21st Century?

The economy of Montenegro belongs to a group of upper-middle-income countries and is in its second efficiency-driven stage of development, together with Albania, Bosnia and Herzegovina, Bulgaria, Romania, Macedonia and Serbia¹⁸. The structure of Montenegrin GDP is dominated by the service sector such as trade, transport, storage and communication, financial intermediation, activities related to real estate, hotels and restaurant services and other services, that account for almost 60% of the value added. While agriculture, hunting, forestry and fishing generate about 7.7%, mining and quarrying 1.2%, construction 5.1%, electricity generation, gas and water 5.5%, manufacturing industry accounts for merely 4.5%¹⁹.

Montenegro is aspiring to become a fully-fledged member of the European Union. The Stabilisation and Association Agreement was signed in 2007, and in December 2010 Montenegro was awarded candidate status by the EU, while negotiations were opened at the end of June 2012. The prospect of EU membership requires substantial levels of reform so that the 35 chapters of the EU body of law (*Acquis*) are absorbed into national legislation. The success in achieving this goal depends on a number of factors such as how successful we are in using all the advantages of living in a small country and addressing the constraints of a small economy. We reached a point in our development where the country's economic growth and competitiveness on the international markets will be increasingly driven by higher education and training, efficient goods markets, a well-functioning labour market, a sophisticated financial market, a large domestic and/or foreign market²⁰, and the ability to harness the benefits of existing technologies. As pointed out by the Lisbon Council, the main task for Central and East European countries is "evolving from boasting merely efficiency-driven growth towards being genuinely innovation-driven economies." To achieve these goals in the conditions and in the aftermath of the global economic crisis, we will have to build a new human capital that will help us meet our long-term goals and aspirations.

Economic Growth and Human Capital Development in the 21st Century: One is Impossible Without the Other

Human capital is critical to harnessing the opportunities that come from accelerating global integration and the knowledge economy. The relationship between economic growth and human capital development is reciprocal and mutually beneficial. On the one hand, economic growth, increased competitiveness, and innovations create demand for well-skilled and trained human capital that is innovative, efficient and future-oriented. On the other hand, improvements in the human capital have positive long-term impacts on the country's economic performance and human development as they increase labour productivity and promote innovativeness across all sectors and increase incomes in the long run. D. Romer, analysing the impact of accumulation of knowledge on economic growth, indicates that one of the reasons that less-developed countries have lower incomes per capita is their inability to use already developed technologies.²¹ Higher levels of human capital benefit everybody: individuals obtain a higher level of income and quality of life, companies could make more profit and governments could increase their budget revenue through increased tax growth and reduce poverty.

Those economies that have a high level of investment in human capital and knowledge have achieved long-term positive rates of economic growth. The reason is the diminishing marginal rate of return on investments in land and fixed capital,

18 World Economic Forum, The Global Competitiveness Report 2011-2012

19 The remaining 16.6% refers to the item "taxes on products less subsidies on products"

20 The Global Competitiveness Report 2011-2012

21 Romer D.: *Advanced Macroeconomics*, McGrawHill, USA (2001)

which, after a certain time, do not generate growth. The investments in human capital increase the marginal rate of return, which generates economic growth in the long run. Empirical analysis by E. Denison shows that the rise in labour education in the U.S. contributed to a quarter of economic growth achieved during the period from 1929 to 1982.²² The existing research convincingly demonstrates the importance of investments in knowledge for increases in GDP per capita.²³ The expenditures on Research & Development (R&D) and higher education and investment in software are positively correlated with such key economic indicators as GDP per capita and employment.²⁴

If you have knowledge, you can find and use resources that have not been discovered yet.

UNDP Qualitative Study 2011. In-depth interview, the Dean of the University of Donja Gorica University

Productivity growth is a key factor that determines economic growth. However, productivity growth is not possible without investment in knowledge, either in education or investments in research that lead to innovation and technological progress. OECD research confirms the importance of investments in human capital and demonstrates that those countries that invest the most in knowledge have the highest labour productivity and are the most developed ones.

Legacies of the Past and Future Economic Trajectories of Montenegro

The Yugoslavian economic model combined elements of a planned socialist economy with a decentralised, market socialist economy managed by workers, with state-owned factories and workers entitled to a certain share of their profits. This model was more advanced than the Soviet socialist models. The country's neutrality allowed it to access both Western and Eastern markets, which encouraged enterprises to stay competitive. Citizens of Yugoslavia were allowed to emigrate freely and many of them found work in Western Europe that helped them to acquire better knowledge and skills.

A life story

Every generation has its own entrepreneurs

In the former Yugoslavia, there was a limited private sector, mainly in tourism and hospitality, transportation, and handi-crafts. Višnja and Stevan decided to continue living together in a small town on the Montenegrin coast. When the building where they had a small apartment was expropriated for the purpose of tourism development, they decided to take a loan to build the house of their own. They built it and they soon began renting the accommodation out to foreign tourists who were discovering the beauty of Montenegro. Shortly afterwards, they opened a small restaurant attached to a nearby hotel and invested in a small boat to tour tourists. The whole family worked hard, providing economic welfare. However, they were periodically questioned by the authorities about the origin of their property. Private business was allowed in Yugoslavia, but at the same time it was ideologically disreputable, and it aroused suspicions.

With the beginning of privatisation, the family was encouraged to take on the rental of public restaurant facilities, hoping that there might be a chance to buy it. However, it appeared that behind the encouragement the only intention was to have them preserve the facility from decay for a new politico-economic elite. The family fell into financial difficulties and it took a lot of effort to get out of them. Višnja and Stevan now have a small pension and to supplement it, they renovated their house for tourists. However, this business does not bring significant revenues. In a new technological and economic environment, Višnja and Stevan have no more entrepreneurial initiatives like in the time of their youth. They regret that the ideology of the former socialist period prevented them to work and develop their business as they could and would have. Their grandchild, the owner of a small enterprise in computer engineering, is a new entrepreneur. Still, he faces business obstacles and he believes small and medium enterprises are not sufficiently supported by government policies in Montenegro.

²² Gary S. Becker: *Human Capital*, The University of Chicago Press, 1993

²³ M. Bačović, M. Lipovina-Božović: *Knowledge Accumulation and Economic Growth*, ASECU, Podgorica, 2010

²⁴ The study used data for 29 countries (EU27, USA and Japan), and examined the effect of investment in research and development (R&D as a percentage of GDP) and expenditures for higher education (PEE, the share of GDP).



Yugoslavia went through an economic crisis in the 1980s that was caused by increases in oil prices and extensive borrowing. Inflation soared out of control, personal incomes and labour productivity fell, and unemployment had dramatically increased by the end of the 1980s. The negative effects of the collapse of Yugoslavia had a direct impact on the breaking of economic ties between former republics. This was followed by UN sanctions, errors in macroeconomic policy and NATO intervention at the end of the 1990s. It negatively affected Montenegro's economy and resulted in a decrease in the national product, closures of many businesses, significant reduction in export of goods and declining revenues from tourism (particularly from abroad), the almost total disappearance of the maritime fleet, interruption of the inflow of capital and new technologies, and a dramatic increase in unemployment.

According to estimates confirmed by international entities, over 80% of the population of Serbia and Montenegro in the period of transition and recession in the 1990s lived on the existential minimum. Over 50% of the population fell into the category of "economically vulnerable", while 20% of population lived below the poverty line.²⁵

Economic Reforms

'Primorka' Bar

The 'Primorka' plant from Bar shared the fate of the majority of Montenegrin factories. The Maričić family from Kolašin opened it between the two wars, and used it mainly for processing olives. After the Second World War the factory was nationalised, and it processed olives, fruits, vegetables, and herbs. It soon started producing sunflower oil in order to complete a product line with the production of juice, syrup, bread and pastries. It produced seven thousand tons of oil, 'amber' per year, thousands of hectolitres of soft drinks and syrups, started the filling line of 'Coke', second to Belgrade. Bread baked by other bakers was bought only when 'Primorka' bread was sold out. Bar was the official world champion in pomegranate juice. Warehouses, cold storage, retail stores were holders of agricultural development (purchase of oranges, tangerines, sweet and wild pomegranate). The water bottling factory *Gulf* was opened. 'Primorka' employed one thousand two hundred workers.

In the catastrophic earthquake in 1979 and later through the reconstruction Bar was of the "best fare" and even in 1989 Bar had a powerful economy with no "loss", without unemployed. During the transition, the departments of the company were first to be sold, and soon afterwards, the essential part of the company was sold, too. There is no 'Primorka' any more, but a few remaining employees still bake small quantities of the delicious bread.

Montenegro has undergone radical economic and social changes over the last decades. The governments implemented a series of economic reforms, of which the most critical were privatisation, introduction of the German mark as an official currency, price liberalisation, decrease of custom rates, opening of the economy and bringing the budget deficit under control. These developments and effective policy changes provided a solid foundation for the rapid economic progress in the coming years. The rapid economic growth allowed increasing the budget allocations for the social sector, including education and healthcare.

At the end of the first decade of the 21st century, 90% of the capital value of Montenegrin companies was privatised and the country achieved stable and continuous growth, with the exception of 2009 when it was affected by the global financial crisis. During the period 2000-2009 Montenegro's GDP grew from €1 billion to €3 billion with an average growth rate of 4.8%. In the 2005-2008 period Montenegro was the leading country among the former Yugoslavian republics for its GDP growth, which averaged 7.6%. The economic growth was propelled by strong domestic and external demand, rapid credit expansion, and significant foreign direct investment (FDI) flows. In 2006, for instance, in comparison with the countries either in Europe or in Central Asia, Montenegro attracted the highest FDI per capita.²⁶ At the early stages of reforms, most of the FDI came from privatisations in banking, telecommunications as well as heavy industry, but then the main inflow of FDI in Montenegro came into tourism and the related real-estate sector.²⁷

²⁵ The study-analytical basis of the policy of macroeconomic stability and development of SRY, Federal Secretariat for Development and Science, Belgrade, 2001, p. 55.

²⁶ World Bank, 2008

²⁷ IMF, 2009

The global crisis resulted in a severe credit crunch and reduced demand for Montenegrin exports. The crisis led to a recession and a GDP decrease of 5.7% in 2009. As Table 2.1 demonstrates, these negative trends were reversed only in 2011 when it is estimated that the GDP grew by 2.5%.²⁸

Table 2.1: Key macroeconomic indicators

	2005	2006	2007	2008	2009	2010	2011
GDP (in € millions)¹	1,815.0	2,149.0	2,680.5	3,085.6	2,981.0	3,104.0	3,234.0
GDP growth, real, in %¹	4.2	8.6	10.7	6.9	-5.7	2.5	3.2
GDP per capita¹	2,912	3,443	4,280	4,908	4,720	5,006	5,211
Unemployment rate, in %²	18.4	14.7	11.9	10.7	11.4	12.12	11.55
Foreign debt (% of GDP)³	28.3	23.5	17.2	15.6	23.5	29.6	32.5
FDI – net (in € millions)⁴	399.0	469.7	567.8	582.0	1,066.5	552.1	389.1
FDI % of GDP	22.0	21.9	21.2	18.9	35.8	17.8	11.9
Inflation (%)⁵	2.4	2.8	7.7	7.2	1.5	0.7	2.8

Sources:

1) MONSTAT;

2) Employment Agency of Montenegro;

3) Ministry of Finance, note: for 2011 estimates by Ministry of finance (data from Pre-accession Economic Programme (PEP) for 2012-2014);

4) Central Bank of Montenegro (CBM);

5) MONSTAT and CBM calculations, note: As of January 2009 inflation is measured using CPI instead Cost of Living Index.

Montenegro is ranked 66th among 183 countries in the *Ease of Doing Business Report 2012* issued by the World Bank, which assesses and compares the regulatory environment for doing business (see Table 2.2 below).²⁹ The most progress in comparison with 2011 was achieved in the areas of paying taxes and registering property. Montenegro is also ranked 76th among 179 nations in the research of economic freedoms conducted by the Heritage Foundation and Wall Street Journal (2011), which put Montenegro in the group of moderately free countries.

Table 2.2: Ranking of Montenegro in World Bank Doing Business Reports 2011 - 2012

	Position in Doing Business 2012	Position in Doing Business 2011 (recalculated)	Change in the rank 2012 vs. 2011 (recalculated)
EASE OF DOING BUSINESS	56	56	No change
Starting a Business	47	46	-1
Dealing with Construction Permits	173	170	-3
Connection to power supply	71	68	-3
Registering Property	108	117	+9
Getting Credit	8	8	No change
Protecting Investors	29	28	-1
Paying Taxes	108	125	+17
Trading Across Borders	34	35	+1
Enforcing Contracts	133	134	+1
Closing a Business	52	48	-4

Source: Doing Business reports for 2011 and 2012, The World Bank Group and online database (<http://www.doingbusiness.org/>)³⁰

28 Economic and Fiscal Programme for Montenegro 2010-2013 (EFP), Ministry of Finance, p.9

29 Doing Business 2012: "Doing Business in a More Transparent World" assesses regulations affecting domestic firms in 183 economies (including Montenegro) and ranks the economies in 10 areas of business regulation, such as starting a business, resolving insolvency and trading across borders. This year's report data cover regulations measured from June 2010 through May 2011. The Ease of Doing Business Index is an aggregate indicator composed of rankings on ten separate but closely linked aspects of doing business, by giving equal weight to each aspect. In comparison with the countries of the European region (a total of 43), Montenegro is ranked 33rd out of 43, while its overall score (62.5) is above global average which amounts to 59.5.

30 Doing Business reports for 2011 and 2012 rank 183 countries. Instead of 9 sets of indicators calculated in 2011, in 2012 the report rankings on



As for economic freedoms, with the index whose value amounted to 62.5 in 2012, making its economy the 72nd freest among 184 countries, Montenegro was classified in the group of moderately free countries. As noted in the Report, the score of Montenegro is the same like in the previous year predominantly as a result of deterioration in business freedoms and public finance management.³¹

In comparison with the countries of the region, Montenegro is behind Macedonia and Slovenia but ahead of other countries such as Croatia, Serbia and Romania (see Table 2.3 below).

Table 2.3: The Ease of Doing Business Index: Comparison with other countries in the region

	DB2012 RANK	DB2011 RANK (recalculated)
Montenegro	56	56
Macedonia	22	34
Slovenia	37	37
Bulgaria	59	57
Romania	72	65
Albania	82	77
Croatia	80	79
Serbia	92	88
Bosnia and Herzegovina	125	127
Kosovo	117	117

Source: Doing Business reports for 2011 and 2012, The World Bank Group and online database (<http://www.doingbusiness.org/>)

Montenegro is progressing well in meeting the EU Lisbon Strategy criteria related to economic and structural reforms. The Lisbon Strategy was launched in 2000 with its main purpose to meet the challenges of globalisation and ageing of population. Accordingly, the European Council defined the objective of the strategy for the EU “to become the most dynamic and competitive knowledge-based economy in the world by 2010 capable of sustainable economic growth with more and better jobs and greater social cohesion and respect for the environment”. After a mid-term strategy review in 2005, in order to “provide a greater sense of prioritisation”, the initial strategy was re-launched and a new strategy³² was developed with its main focus on growth and jobs.

According to the Lisbon Review and on the basis of the World Economic Forum data for 2010, out of eleven East-European non-EU countries Montenegro is closest to meeting the Lisbon Strategy criteria related to economic and structural reforms.³³ Montenegro is top-ranked among (has overtaken Croatia to be the top performer among) 11 non-EU countries³⁴ – with candidate or potential candidate status. Montenegro outperforms the five lowest-ranked EU members such as Greece, Poland, Italy, Romania and Bulgaria.

Montenegro’s greatest strengths are in the dimensions of financial services and social inclusion. These are the two areas where Montenegro scored above the average of the Accession 12 group of countries that have joined the EU since 2004.

ease of doing business have expanded to include indicators on “getting electricity” as well. Accordingly, all Doing Business 2011 rankings have been recalculated to reflect changes to the methodology.

31 Index of Economic Freedom, Heritage Foundation.

32 “Europe 2020” Strategy

33 The Lisbon Review 2010: Towards a More Competitive Europe?, World Economic Forum; Lisbon Review Index is the World Economic Forum’s study which has been carrying out every two years since the European Union first articulated the Lisbon Strategy. Its main purpose is assessing Europe’s progress towards meeting these goals. Lisbon Review Index 2010 is the fifth and final review that assesses the progress made by EU Member countries. In addition to assessing the performance of 27 existing EU Members, it also measures the competitive performance of EU candidates and potential candidate countries among which Montenegro as well.

34 It includes: Croatia, Azerbaijan, Turkey, Macedonia FYR, Georgia, Ukraine, Serbia, Armenia, Albania, Bosnia and Herzegovina.

Table 2.4: Lisbon review index 2010 - Montenegro (MONSTAT)

2010 (2008)	FINAL INDEX	Sub-indexes							
		Information Society	Innovation and R&D	Liberalization	Network Industries *	Financial Services	Business Environment **	Social Inclusion ***	Sustainable Development
Montenegro	4.19 (3.96)	3.95 (3.27)	3.32 (3.15)	4.34 (4.22)	4.60 (3.93)	4.74 (4.88)	4.32 (4.07)	4.28 (4.11)	3.94 (4.08)
EU 27	4.81 (4.73)	4.73 (4.53)	4.23 (4.18)	4.80 4.90	5.39 (5.32)	5.05 (5.41)	4.60 (4.71)	4.51 (4.66)	5.16 (4.11)
Accession 12 group	4.42 (4.31)	4.32 (4.13)	3.68 (3.62)	4.47 (4.51)	4.88 (4.75)	4.70 (4.93)	4.49 (4.52)	4.19 (4.34)	4.61 (3.67)

*refers to: Telecommunications and Utilities and transport

**refers to: Business start-up environment and Regulatory environment

***refers to: Returning people to the workforce, Upgrading skills and Modernising social protection

Source: *The Lisbon Review 2010*, p. 13 & *The Lisbon Review 2008*, p. 11³⁵.

The Government continues to implement a series of policies and other measures aimed at attracting and encouraging foreign direct investments. In 2012, as a part of its preparations for negotiations with the EU, the Government of Montenegro adopted the Pre-accession Economic Programme (PEP) that aims at preparing the EU candidate countries for participation in the multilateral surveillance and economic policy co-ordination procedures currently in place in the EU as part of the economic and Monetary Union. The PEP establishes a benchmark for creating a consistent economic policy that is updated and revised annually.³⁶

Some sectors increased in their significance for the country's economic growth. Montenegro is moving away from the traditional manufacturing sector toward service-oriented industries. Over the medium-term and long-term it is anticipated that service sectors will lead job creation and output growth in Montenegro while the importance of manufacturing (e.g. metallurgy, wood-processing industry) will decline.

Tourism is recognised as a strategic sector of Montenegro's economy with positive cross-sectoral impacts. Montenegro, however, cannot rely solely on tourism for stable growth in the long run. Development of the energy sector, for instance, can have a significant positive impact on employment, development of other sectors such as construction, if the environmental impacts are carefully evaluated and addressed. It has been estimated that construction of a hydropower plant encourages development of forty different activities, which means generation of jobs and new profiles of human resources.

Aluminium and steel production also has significant potential, where the aluminium exports account for about 40% of all merchandise exports. The construction industry has bright prospects and is supported by the Government through its Strategy for Development of the Construction Industry by 2020. The goal of the Strategy is to integrate the Montenegrin construction market into the European market, by positioning it on the competition scale among the four leading countries in construction in the region through an innovative, knowledge-based and highly technologically organised construction industry.

The food industry can play a more important role in the country's economy, especially if it manages to offer quality organic produce for the EU markets. Agricultural land takes up 38% (518,016 ha) of the territory of Montenegro. The largest parts of agricultural land are pastures and natural meadows (88%) and they are extensively used. Agriculture is the most important and frequently the only activity of the rural population that provides incomes for 49,000 rural households³⁷ that partly or fully generate their incomes from the agricultural sector. Table 2.5 below provides a more detailed presentation of Montenegro's GDP structure.

35 The Lisbon Review 2008: Measuring Europe's Progress in Reform, 2008, World Economic Forum.

36 Montenegro adopted the Pre-accession Economic Programme (PEP) for 2012-2014, <http://montenegro.blogactiv.eu/>.

37 MONSTAT, agricultural census, 2010



Table 2.5. Montenegro GDP structure in 2011 (MONSTAT)

Sector	GDP share (%)
Agriculture, forestry and fishing	8.3
Mining and quarrying	1.2
Manufacturing	5.0
Electricity and gas supply	3.0
Water supply, waste water management	1.9
Construction	5.5
Wholesale and retail trade	12.4
Transport and storage	4.4
Accommodation services and catering	5.2
Information and communications	5.6
Financial and insurance services	4.0
Real estate activities	6.1
Vocational, scientific and technical activities	2.3
Administrative and supportive service activities	0.9
Public administration and defence, compulsory social security	8.1
Education	4.3
Health and social work	4.1
Art, entertainment and recreation	1.0
Other service activities	0.5
Activities of households as employers	..
Activities of extraterritorial organisations and bodies	..
Taxes on products minus subventions on products	16.2

Regional differences in economic development are quite considerable. There are differences among regions of Montenegro caused by historical trajectories, demographic factors, including population density, distribution of natural resources, fixed assets, institutions, and economic development from previous years. As a result, economic development levels vary in Montenegro from region to region, with the central region doing the best and the northern region being in the most disadvantaged position. The most dynamically developing sectors such as construction, tourism, retail sector, telecommunications, and banking are concentrated in the central and southern regions of the country. Such significant differences among regions impact the labour market participation and unemployment rates. The coastal region, for instance, had the lowest unemployment rate of 11.4% while in the northern region almost 33% of the active population was unemployed (see Table 2.5a below).

We have mountains, lakes, we have many beautiful things, but nothing is utilised. The north could be used all year round. The state is wrong as it is focused on the coast only where all is in bloom, while the north is totally neglected.

UNDP Qualitative Study 2011. Focus group discussions in Berane and Nikšić

In the future, in addition to tourism, the southern region can benefit from developing transport services, both maritime and road transportation, agricultural activities such as olive and tropical fruit growing, as well as development of renewable energy sources (such as the energy from the sun and wind). The northern region has the potential to develop a wood industry, food-processing industry, tourism and agriculture. There are significant natural resources for tourism development. Taking into consideration these regional differences, the Ministry of Economy developed important strategic papers³⁸ aimed at reducing regional differences and strengthening the development potential of the parts of the country that are lagging behind.

³⁸ This primarily refers to the Strategy of Regional Development of Montenegro 2010-2014 and Strategy for Sustainable Economic Growth in Montenegro through Introduction of Clusters 2012-2016

Table 2.5a: 2011 Montenegro labour market indicators, by region

	Coastal region	Central region	Northern region
Population (in thousands)	148.7	293.4	177.8
Active population (in thousands)	59.0	129.1	55.9
Employed (in thousands)	52.3	106.1	37.6
Unemployed (in thousands)	6.7	23.1	18.3
Inactive population (%)	63.3	107.4	86.5
Activity rate (%)	48.3	54.6	39.3
- Men (%)	55.0	61.0	47.8
- Women (%)	42.0	48.6	30.9
Employment rate (%)	42.8	44.9	26.4
Unemployment rate (%)	11.4	17.9	32.7

Source: MONSTAT, Labour Force Survey, 2011.

Small and medium sized enterprises play an important role in country's economic growth and provide gainful employment for many individuals. Montenegro has a policy for small and medium-size enterprises (SME), which has a positive effect on the business environment since the role of SMEs in terms of employment, GDP and export has been strengthened in the last couple of years. During 2006–2009 the number of employees in SMEs increased from 85,065 to 105,038, which is an increase of 23.48%.³⁹ At the end of 2009 participation of employees from SMEs in total employment was about 60%. In the same period, participation of SMEs in export increased from 24.85% to 31%, which is an increase of 6.15%. There is no official data about the share of SMEs in GDP.⁴⁰

The role of SMEs in a relatively small economy may further increase in the future. SMEs generally require less capital per workplace created because they tend to focus on activities in services, construction, transportation and light manufacturing sectors that require relatively little investment per worker compared, for example, to metallurgy and chemical production. Consequently, in Montenegro with relatively small investments many jobs can be created by SMEs. SMEs are generally more flexible than large enterprises and can quickly shift to more profitable lines of business when opportunities arise which is especially important in post-crisis conditions. The "Strategy for Development of Small and Medium-Size Enterprises 2011-2015" was adopted in January 2011. It is aimed at increasing the number of employees in SMEs and participation of SMEs in export and in GDP. One of the objectives also includes fostering women entrepreneurship through developing focused strategic document as well as setting the institutional framework to support women self-employment.

Low levels of investment into Research and Development (R&D).

Investments in research are still weak and further efforts are needed to establish stronger links between the scientific community and the private sector and to encourage investment of the public and private sectors in scientific research.⁴¹ MONSTAT data shows that investments by Montenegro in R&D over the past 10 years ranged between 0.04% and 0.51% of GDP. The average levels of investment in science, according to MONSTAT were around 0.1% of GDP while there is no data available about business investment.⁴²

According to a pilot statistical study conducted in 2012 by MONSTAT and the Ministry of Science, key indicators of research and development in 2010 were as follows:

39 Strategy for Development of Small and Medium-size Enterprises 2011–2015, Directorate for Development of Small and Medium-size Enterprises, January 2011.

40 Data from the Strategy for Development of Small and Medium-size Enterprises 2011–2015.

41 Valid statistical data on R&D is not available, which complicates monitoring investment in research. See, for instance Tables of assessment and recommendation of the EU Commission included in the Annual Progress Report in 2010. Ministry of Foreign Affairs and European Integration, Chapter 25, R&D.

42 Kemal Delijić: Funding for Scientific Research. In: CANU, 2010, Montenegro in the 21st century, on the basis of MONSTAT data.



- 470 people were engaged in Research and Development, computed as the equivalent full-time in research, of whom 308 were researchers.
- Expenditure on research and development amounted to €6,482,202, representing 0.21% of GDP. According to the methodology applied in the old MONSTAT survey, these payments in 2010 were 0.12% of GDP.⁴³

The Government of Montenegro recognised the importance of investment in R&D and set a goal of 1.4% GDP investment by 2013, with the dynamics of increase in investments made by the government and the business sector. At the same time, however, if Strategy goals prove to be unrealistic, the possibility of their redefinition has been announced.

Some barriers have to be addressed to ensure economic growth and integration into the EU. Although Montenegro has economic policy and institutions in place and is on the right track with its reforms, a number of barriers such as inefficient public services, inadequate infrastructure, and insufficient access to finances and widespread corruption have to be addressed.⁴⁴ The financial crisis has revealed a number of weaknesses in Montenegro's economic policies and highlighted the importance of improving the monitoring and enforcement of privatisation contracts, simplifying regulation of the business environment that should support in particular small and medium enterprises.⁴⁵

Table 2.6: The most problematic factors for doing business – Montenegro

Factor	GCR 2009-2010	GCR 2010-2011	GCR 2011-2012
Access to financing	14.6	16.4	20.4
Tax rates	4.1	5.6	12.0
Restrictive labour regulations	8.2	5.8	11.1
Inadequate supply of infrastructure	15.4	18.4	10.8
Inefficient government bureaucracy	16.1	12.6	10.5
Poor work ethics in national labour force	5.3	7.3	8.6
Inadequately educated workforce	11.2	12.3	8.4
Corruption	10.6	8.4	6.6
Tax regulations	6.9	5.1	6.3
Crime and thefts	2.2	2.8	2.1
Poor public health	0.7	0.3	1.6
Inflation	1.7	2.7	1.1
Government instability/coups	0.0	1.1	0.4
Policy instability	1.0	0.6	0.2
Foreign currency regulations	1.9	0.6	0.0

Note: From a list of 15 factors, respondents were asked to select the five most problematic for doing business in their country and to rank them between 1 (most problematic) and 5. The values in the table show the responses weighted according to their rankings.

Source: *The Global Competitiveness Report 2011–2012*, *The Global Competitiveness Report 2010–2011*, *The Global Competitiveness Report 2009–2010*⁴⁶

The share of the grey economy has to be reduced. Underground economic activities cause tax evasion so that the state budget sustains revenue losses, which makes provision of services and funding of programmes more difficult, particularly

43 Ministry of Education and Science, University of Montenegro, Montenegrin Academy of Sciences and Arts, Office for International Scientific, Educational, Cultural and Technical Cooperation and Pilot statistical R&D survey, MONSTAT and Ministry of Science.

Methodological note: In the data processing there was a degree of reliance on estimates, due to poor questionnaires. The business sector was not adequately represented in the coverage. The statistics process is continuously improving, and in 2012 this study will officially be conducted by MONSTAT.

44 According to the Montenegro Progress Report of the European Commission for 2009

45 An extensive and in-depth analysis with specific recommendations can be found in World Bank, *Montenegro: After the Crisis: Towards a Smaller and More Efficient Government*. October 2011

46 <http://www.weforum.org/issues/global-competitiveness>

those targeting human capital development. It is estimated that the grey economy accounts for 20% of GDP in Montenegro.⁴⁷ Retail, the hospitality industry and building trade account for the largest share in the structure of grey economy. About 27% of companies in Montenegro are competing against unregistered or informal firms, while almost 11% of all companies recognise the practice of competitors in the informal sector as the key constraint for development and success of their business.⁴⁸ Other factors that impede business development are presented in Table 2.6 below.

Labour market policies should be modernised to support economic growth. Significant investments in human capital can be made and effective policies designed and implemented, but utilisation of human capital to the best of its potential depends on the labour market. Institutional arrangements of the labour market should enable effective utilisation of the country's human capital and resource allocation to ensure long-term economic growth.

Concerns about employment security and job loss have led the Government to address unemployment, although coverage and benefits are often partial and inadequate. Some individuals who lost their jobs transitioned to the informal economy, where wages are lower and vulnerability is higher.

Table 2.7 below provides a more detailed picture of the labour market trends: the total population increasing and active population decreasing, a low and declining rate of economic activity (51.7% in 2007 and 48.7% in 2011); a high unemployment rate of 19.7% and decreasing share of the population aged 15 and younger in the total population from 20.1% in 2007 to 18.2% in 2011 and differences in unemployment rates of almost 2% between men and women require development and implementation of labour market policies that will increase skills and competencies of ALL individuals who can and would like to work.

Table 2.7: Labour market indicators in Montenegro, 2007-2011

	2007	2008	2009	2010	2011
Population (in thousands)	638.0	639.7	642.3	645.3	619.9
Active population (in thousands)	263.7	266.7	264.0	260.7	244.1
- Employed (in thousands)	212.7	221.9	213.6	209.4	196.0
- Unemployed (in thousands)	51.1	44.8	50.4	51.3	48.1
Inactive population (in thousands)	245.9	246.7	252.7	259.2	257.1
Activity rate (%)	51.7	51.9	51.1	50.1	48.7
- Men (%)	60.0	60.4	59.3	58.1	55.7
- Women (%)	43.9	43.9	43.3	42.6	42.1
Employment rate (%)	41.7	43.2	41.3	40.3	39.1
Unemployment rate* (%)	19.4	16.8	19.1	19.7	19.7
- Men (%)	18.1	15.9	18.0	18.9	19.5
- Women (%)	20.9	17.9	20.4	20.7	20.0
Share of people aged less than 15 in total population (%)	20.1	19.7	19.5	19.4	18.2

*Note: Table 2.7 is based on the data from the Labour Force Survey conducted by MONSTAT. Data in Table 2.7 does not coincide with Table 2.1 which includes official data from the Employment Agency of Montenegro.

Source: MONSTAT, Labour Force Survey, 2007-2011

The efficiency and flexibility of the labour market should be improved to support the individuals in finding the best use of their knowledge and skills in the economy and create incentives for them to be innovative and put their best effort into jobs. The labour market should promote mobility of the labour force so that workers can move from one economic activity to another rapidly and at low cost with minimal impact on their wages. The latest global economic crisis emphasised the

47 Economic and Fiscal Programme of Montenegro 2007-2010

48 World Bank (2009), *Enterprise Surveys. Montenegro Country*, more at: <http://www.enterprisesurveys.org/Data/ExploreEconomies/2009/montenegro#informality>



importance of labour market flexibility as countries with particularly rigid labour markets faced significant challenges in recovering from the economic downturn. To improve labour markets specific interventions aimed at lowering transaction costs in hiring and firing workers, advancing meritocratic system of determining wages and promoting modern system of human resource development, with special emphasis on corporate training should be implemented.

What is Our Human Capital?

In Yugoslavia, human capital well corresponded to its economic, political and social system. The rapid and comprehensive economic reforms implemented in Montenegro were not supported through investment and targeted, human capital re-building policies that would meet the needs of the country in the 21st century. The following discussion explores the current status of the national human capital and examines how it was affected by the transition and reforms.

Relatively high levels of educational attainment of the population. Montenegro has a well-educated population, but the general levels of education are lower than in EU countries. The greatest difference exists at the level of tertiary education, where only 9% of Montenegrins have higher education in comparison with the EU average of 18% (see Table 2.8 below). This gap narrows if we treat individuals who have two years of post-secondary education as those with higher education.⁴⁹

Table 2.8: Levels of educational attainment, Montenegro, 2011

	Montenegro – Percentage of the population aged over 15 years (2011 Census)	EU27 - Percentage of the population aged 15-64 years (2011) ⁵⁰
No education	2.3	
Primary and incomplete primary education	28.3	30.0*
Secondary education	52.2	46.4**
College and university degrees obtained in the old and new education system	17.2	23.6***

*(levels 0-2) pre-primary, primary and lower secondary education

** (levels 3 and 4) upper secondary and post-secondary non-tertiary education

*** (levels 5 and 6) first and second stage of tertiary education

Source: MONSTAT (2011 Census)

The level of population education attainment is a widely-used aggregate indicator of the level of human capital, but it has its limitations, especially in measuring human capital in the 21st century where informal education and skills play a significant role. It does not capture, for example, the level of skills and abilities that are acquired after completion of formal education as well as other features of human capital such as the ability to be innovate, use ICT and speak foreign languages.

Increasing higher education enrolment rates. As Table 2.9 demonstrates, over the last years the percentage of secondary school graduates attending institutions of higher education increased dramatically. In comparison with 2002, when only 44% of total secondary school graduates attended university programmes, in 2008 the number of students enrolled increased to 108% of high school graduates.⁵¹ Notwithstanding Montenegro's increasing higher education attainment rate, it is critically important to improve access to it for a range of students from socially excluded groups to improve their chances of success in the labour market.

49 In recent years Montenegro has an upward trend in higher education attendance rates that will be reflected in the results of the 2011 Census.

50 Data is classified in accordance with the International Standard Classification of Education (ISCED), 1997 version: (level 0-2) pre-primary, primary and lower secondary education; (levels 3 and 4) upper secondary and post-secondary non-tertiary education; (levels 5 and 6) first and second stage of tertiary education, note: data from the web site: <http://epp.eurostat.ec.europa.eu/portal/page/portal/education/data/database>

51 It is assumed that students who completed their secondary education some time ago have also enrolled at the university.

Table 2.9: Number of students enrolled at undergraduate studies (all university programs)⁵²

Year	Regular students who completed secondary education (regular and special secondary schools)	Enrolled students - undergraduate studies	Percentage of enrolled secondary school students	The annual growth rate of student enrolment
2002/03	7,704	3,408	44.24%	
2003/04	7,495	3,866	51.58%	13.44%
2004/05	7,508	4,564	60.79%	18.05%
2005/06	7,752	5,478	70.67%	20.03%
2006/07	7,423	6,690	90.13%	22.12%
2007/08	7,306	7,483	102.42%	11.85%
2008/09	7,318	7,934	108.42%	6.03%
2009/10	n/a	7,790	..	-1.81%
2010/11	..	8,079	..	3.70%

Source: MONSTAT

The share of Montenegro's working age population is expected to decrease. The average age of Montenegrins has risen from 32.7 in 1991 to 35.8 in 2003 and to 37.2 in 2011. Although the country's population slightly declined from 620,145 in 2003 to 620,029 in 2011, the share of the active population has further reduced from 264,276 in 2003 to 244,100 in 2011.⁵³ The trend of slower rates of population growth is most likely to continue for the next few decades. With an increasing elderly population, Montenegro faces special challenges. First, each person's salary must support several people. Second, as people get older, they require more health care that puts a pressure on the healthcare sector. These demographic trends increase the importance of human capital that has to be more competitive and flexible and create greater opportunities for older workers and other groups to participate in the labour force to offset demographic challenges.

"A seven-million man"

That's how a lawyer named a man who, in his office, got seven million Euros for the sale of his real estate. His ancestors had lived for generations on the edge of poverty, if not starvation. The man, the lawyer said, "fell apart" in a second, so that even something literally like a snap could have been heard. He bought flats in different cities, but their prices went down the next year due to the economic crisis. The rent he could get was lower than he expected, and maintenance expenses stayed rather considerable. He also bought cars, new furniture, and luxury items... There was no mention of capital conception, or at least keeping its substance. That "seven-million man" is still rich, but possesses no longer seven, but at most three million. It is big money, and quite enough to be spent quickly like he already did. There are only a few examples of people who owned real estate and got rich in the "Montenegrin golden age" who increased wealth or started new industry, implemented new technological ideas, predicted new tourism flows in the near future...

Some social groups are excluded and do not contribute to human capital. Vulnerable social groups such as Roma, Ashkali and Egyptians and persons with disabilities and others face discrimination in employment and/or access to education, healthcare and other public services that are critical to human capital development. As a result, they cannot make full contribution to the country's human capital.

Many citizens still have socialist paternalistic views and lack initiative. Montenegrins continue to believe that the state should address many of their concerns. Many values of the old socialist system did not lose their traditional legitimacy with loss of their legality. A significant share of Montenegrins, especially the older generations, and younger age groups as well, are not so eager to adopt all ideals of democracy and the free market and accept responsibility for their own

⁵² First year undergraduate programme students

⁵³ Census data 2003 and 2011 and LFS 2011 data – PROPER REFERENCES



destiny. A significant share of UNDP survey respondents (23.7%) think that the government is fully responsible to ensure that everyone is provided for, while 8.3% thinks the opposite, that people are solely responsible to provide for themselves.

Women in Montenegro are perceived primarily as daughters, wives and mothers. According to the 2011 Census, women account for 50.6% of the overall population of Montenegro. On average, women are older than their male counterparts (38 vs. 36 years), and at the same time account for 53.2% of the moving population. Life expectancy at birth among women is 76.5 and it is higher compared to men in Montenegro (71.7, data for 2009), while the average age at first marriage increases through time (from 22 in 1960, to 26.2 in 2010).

One of the reasons is a longer education process. Statistics shows that women have improved in education by representing the majority of enrolled students at all levels. Following the figures of students with a diploma obtained in the new system (Bologna Declaration), 57.4% of undergraduate studies, 51.7% of basic studies, 67% of specialist studies and 61.6% of Master studies have been completed by women. Women also show better results: every 5th woman enrolled in 2007/08 is a graduate in 2010, while for the same period every 7th man graduated⁵⁴.

All former socialist countries, including Montenegro, were characterised by a higher level of economic activity among women. However, this changed during the transition, resulting in lower economic activity among women, being less well paid at the same time. Though they gain better education, in September 2011 the average earnings of women amounted to 86.8% of the average earnings of men⁵⁵.

The gender pay gap is partly caused by the structure of occupations taken by women in certain sectors. Statistics shows that women are better paid if engaged in: agriculture, hunting and forestry (average earnings of women to average earnings of men - 123.9%), transportation, warehousing and communications (113.5%) and real estate (106.2%). On the other hand, men earn more than women in manufacturing industry (average earnings of women to average earnings of men – 66.5%). In addition, one can notice higher employment of women in less profitable sectors, while managing positions and entrepreneurial activities dominate among male population.

A recent UNDP study⁵⁶ has shown that unemployed women in Montenegro are worried about whether they will be able to take care of their households in case they start their own business – 40%, while 34% consider they would have to invest much more effort to achieve the goals compared to their male counterparts. What women lack the most in order to start their own business are funds and favourable finances (loans). Traditionally, property required as collateral for getting a loan is registered under the name of the father, later under husband's name, and often sisters give up their inheritance on behalf of their brothers. Lack of systematic support (i.e. guarantee fund for women entrepreneurs) hinders development of human capital, which could be boosted by economic engagement of women.

Other obstacles include lack of knowledge and support to develop business plans, support to acquire and furnish business premises, inadequate tax exemptions in the first years of business development, poor business contacts and lack of information related to business registration. Potential women entrepreneurs mainly think about modest business plans. They play without taking risks, choose known and businesses already developed in the market, primarily close to their families. They are oriented to domestic, local territory. Planned businesses do not request large investments, but also cannot generate significant profits nor can they develop significantly in the future. They are also aware that their business idea is not unique, as there is vast competition. Not only do they enter the entrepreneurship arena modestly, but potential women entrepreneurs do not have the ambition to significantly develop the business in the future. They mainly plan to work alone, or hire one more employee. In order to take lower risk in financial terms, they even plan to start their businesses informally, until it becomes more successful. Consequently, profitability expectations are also modest: the business should provide decent living standards for the family or simply satisfy needs of the family budget.

As a result of the above mentioned lack of systematic support, only every tenth company established in Montenegro is owned by a woman. There are few organisations set up in order to support women in business (i.e. Committee for Women Entrepreneurship within the Montenegrin Chamber of Commerce, as well as the Association Business Women, under the auspice of the Union of Employers, etc.). However, the majority of women-owned businesses in Montenegro have tradition-

54 MONSTAT "Women and men in Montenegro 2012", p. 49

55 MONSTAT "Women and men in Montenegro 2012", p. 99

56 UNDP Study "Women Entrepreneurship in Montenegro", December 2011.

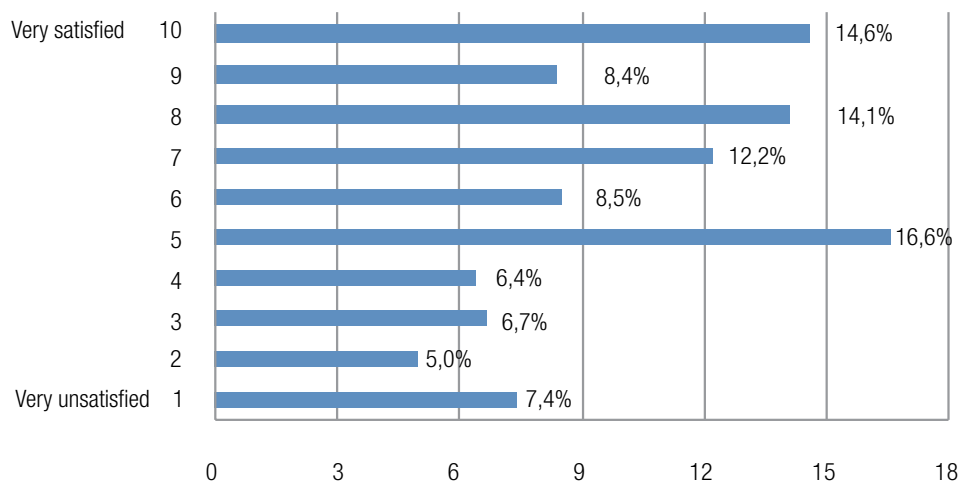


ally operated in the stereotypically feminine fields of services and retail. Also, those businesses employ a small number of employees. As research showed, once they are in business, women entrepreneurs do not feel any kind of discrimination, but rather on the contrary. Case-study-based research concludes that despite the differences, business women in Montenegro face many similar issues. Business owners of both sexes in Montenegro today must deal with complicated bureaucracy, administrative barriers and other obstacles that appear to be gender-neutral. Some of the challenges faced by women entrepreneurs in Montenegro are typical of those faced by women all over the world, while other can be found in transitional economies. Still, it is interesting that in others transitional countries, business women agree that they also have to deal with discrimination, while in Montenegro the women interviewed did not⁵⁷.

What Human Capital Do We Have to Develop to be Successful and Prosperous in the 21st Century?

Increasing the skill levels of Montenegrins can both improve the economic security and social inclusion of individuals, and bring important gains to overall productivity, economic growth and human development. According to one **scenario of employment and productivity growth** in Montenegro for 2009-2030 (see Table 2.10 below), the importance of the country's human capital to its economic prosperity and human development will continuously grow.⁵⁸ It is forecasted that Montenegro by the end of this decade will have very low unemployment rate, and even face a deficit of labour force. The labour market needs will have to be partially met through immigration starting from 2018, if fertility rates do not improve and the available human capital of Montenegro does not improve its quality to meet labour market demands. It is also forecasted that GDP will grow at an average rate of 4% based on new investments and technology improvement, combined with increased employment of 2.0% per year. This will result in growth of labour productivity to the level of €20,685/employee, or GDP per capita of €10,848.

Figure 2.1: Life satisfaction (on scale 1-10)



Source: UNDP Quantitative study 2011

⁵⁷ Stern M. Challenges Facing Women Entrepreneurs in Montenegro, CEED 2002.

⁵⁸ Assumptions of the study include: The projection of the Montenegrin population in the period up to 2031 (see more in Maja Bačović: «Demografske promjene i ekonomski razvoj», Podgorica, 2006); the annual increase in hotel services and restaurants – 5%; annual growth in the construction sector – 3%; annual growth in manufacturing industry – 5%; annual growth in other sectors – 4%; growth in production resulted from the combination of two factors: productivity growth; growth in the number of employees. The growth in tourism and construction is caused by increased employment by 0.7, while productivity contributes to growth with 0.3 units; in other sectors, the assumption is that the growth of production result of employment growth by 0.5 and productivity growth of 0.5 units. The growth of activity rate of 0.33% per year. The natural rate of unemployment – 4%



Table 2.10: Scenario of GDP growth and employment in Montenegro: 2009-2030

	GDP (€ thousands)	Population Aged 15-64	Number of employees	GDP (%)	GDP per employee	Active population	Surplus/deficit of labour ⁵⁹
2009	2,980,697	428,265	213,600	4,705	13,955	264,000	39,840
2010	3,113,103	429,123	218,171	4,905	14,269	262,216	33,556
2011	3,239,398	429,983	222,843	5,094	14,537	263,626	30,238
2012	3,370,874	429,940	227,619	5,291	14,809	264,487	26,288
2013	3,507,745	429,897	232,502	5,496	15,087	265,350	22,234
2014	3,650,236	429,854	237,494	5,708	15,370	266,217	18,074
2015	3,798,580	429,811	242,597	5,929	15,658	267,086	13,806
2016	3,953,019	429,774	247,814	6,158	15,952	267,962	9,429
2017	4,113,807	428,914	253,148	6,405	16,251	268,326	4,445
2018	4,281,209	428,057	258,602	6,662	16,555	268,691	-658
2019	4,455,498	427,200	264,177	6,929	16,866	269,056	-5,884
2020	4,636,962	426,346	269,878	7,206	17,182	269,422	-11,234
2021	4,825,899	426,148	275,708	7,495	17,504	270,203	-16,313
2022	5,022,621	425,909	281,668	7,805	17,832	270,961	-21,546
2023	5,227,451	425,671	287,763	8,128	18,166	271,721	-26,911
2024	5,440,729	425,433	293,996	8,465	18,506	272,483	-32,412
2025	5,662,806	425,194	300,369	8,815	18,853	273,247	-38,052
2026	5,894,049	420,784	306,887	9,180	19,206	271,323	-46,417
2027	6,134,841	420,174	313,552	9,568	19,566	271,841	-52,584
2028	6,385,581	419,565	320,368	9,972	19,932	272,361	-58,902
2029	6,646,685	418,956	327,340	10,394	20,305	272,881	-65,374
2030	6,918,585	414,113	334,470	10,848	20,685	270,635	-74,660

Source: Bačović M. "Demographic Changes and Economic Development", Podgorica, 2006

Is it sufficient to increase investments into key sectors contributing to human capital such as health and education to address these challenges, achieve sustainable economic growth rates in the long run that will result in human development of all? Should the state be solely responsible for building and improving human capital? Who are the key partners that should unite their efforts in building human capital of the 21st century? How to address labour shortage where demand for workers exceeds supply of workers willing to work at existing market conditions in particular sectors of the economy? How to address skills shortage where there is a lack of adequately skilled individuals within a sector or occupation at current levels of remuneration, conditions of employment and geographic location? How to make sure that the educational system equips young people with new skills and competencies, which allow them to benefit from globalisation and to contribute actively to economic development under a system where the main asset is knowledge?

Montenegro has adopted many laws, policies and other interventions focusing on human capital development that are aligned in principle with the EU approaches to human capital, including the Lisbon Strategy. The strategies emphasise the goals of building a society of knowledge in Montenegro, as well as a flexible, competitive and efficient workforce developed through the educational system, including vocational education. The future human-capital-focused interventions in Montenegro should be aligned with the corresponding EU human capital strategies and policies such as the EU labour market measures that emphasise six key areas⁶⁰:

1. Training
2. Employment Incentives
3. Supported employment and rehabilitation

59 Natural rate of unemployment – 4%

60 Eurostat Yearbook 2011

4. Direct job creation
5. Start-up incentives
6. Job rotation and job sharing

In 2010 the European Commission launched the new “Europe 2020” Strategy⁶¹ with the main purpose of overcoming the crisis and preparing the EU economy for the next decade. In this new strategy, the Commission has identified three key drivers for growth, to be implemented through concrete actions at the EU and national levels: (i) Smart growth, developing an economy based on knowledge and innovation; (ii) Sustainable growth, promoting a low-carbon, resource-efficient and competitive economy; and (iii) Inclusive growth, fostering a high-employment economy delivering social and territorial cohesion.

A life story

What about apples?

That year, Radovan again tried in vain to sell his old family house in the centre of Berane, with an orchard around it. The year was particularly good, but nobody picked up fruits in his orchard. When Radovan harvested as much as he could use the coming months, he asked a neighbour to take the rest and feed the pigs. He was not alone. There are many abandoned farms with rotting fruits, and imported eco-jams from Italy are sold at five hundred grams for two Euro.

Radovan is fifty-eight. For a decade he had worked in Germany and then came back to teach in Bar. That year he also failed to sell the property. The price was so low that it did not allow him to support his and his children plans. If the house were on the coast or in Podgorica, Radovan would be able to sell it immediately and support his children and himself. His colleague from work sold his real estate property in a beautiful village near Budva and bought three apartments in Belgrade. That land was once an orange orchard providing a good, sustainable income for the large family, his colleague told him.

Five targets have been defined for the whole of the EU, and Montenegro may consider the comparable targets in order to meet the Europe 2020 goals:

1. Employment: 75% of the 20-64 year-olds to be employed;
2. R&D/innovation: 3% of the EU's GDP (public and private combined) to be invested in R&D/innovation;
3. Attaining the EU's “20/20/20” climate/energy targets, which include: (i) greenhouse gas emissions 20% (or even 30%, if the conditions are right) lower than 1990; (ii) 20% of energy from renewable; and (iii) a 20% increase in energy efficiency;
4. Education: (i) Reducing school drop-out rates below 10% (from the current 15%) and (ii) expanding the share of younger people (30-34) with a university degree (from 31% to 40%);
5. Poverty/social exclusion: at least 20 million fewer people in or at risk of poverty and social exclusion.

The Government of Montenegro implemented the “National Strategy for Employment and Human Resources Development for the period of 2007-2011” that was aimed at raising the level and quality of employment in Montenegro. The Strategy focused at improving the conditions for job creation and encouraging investment in human capital development. Among many others strategies aimed at building the country's human capital it included providing opportunities for unemployed persons to access training, retraining, work practice and continued assistance in finding a job. “The National Strategy for Employment and Human Resource Development 2012-2015” continues with labour market reforms that are in line with the EU employment and HC policies. The strategy identifies three key priorities:

- **Increasing Employment.** Reducing the unemployment rate by enhancing the business environment and labour market management, striking the right balance between labour market flexibility, productivity and security; increasing the efficiency of activation policies with a special emphasis on the integration of long-term unemployed and unemployed young people in the labour market; and increasing self-employment, as well as stimulating entrepreneurship, especially in the underdeveloped areas of Montenegro;

61 http://ec.europa.eu/commission_2010-2014/president/news/documents/pdf/20100303_1_en.pdf



- **Improving Knowledge, Skills and Competences** with a view to increasing job opportunities, and increasing competitiveness through formal and informal education and training by promoting adults' access to and participation in lifelong learning and raising awareness of the importance of lifelong learning, and increasing the quality of education at all levels and adjusting the education system to labour market needs; and
- **Promoting Social Inclusion and Reducing Poverty** by improving the system of social benefits and social services to better target and cover vulnerable groups, integration of disabled persons in the labour market; and integration of the RAE population, refugees and displaced persons in the labour market.⁶²

Despite a number of Government policies and programmes targeting human capital development, there are some areas where the current country's human capital cannot meet the expectations of the economy and society. Human capital in the long-run should be able to address the challenges listed in the text below:

There is growing concern about skills mismatches between those employed in declining sectors and the demands of growing sectors. Dramatic economic reforms and globalisation made a significant impact on the labour market. Data on registered unemployment rates vary between 10% and 15%. Before the global economic crisis, employment rates were continuously growing supported by strong economic growth and positive impacts of the labour market reforms. Employment grew up to 4.8% on an annual level with a gradual shift from industry to services. The registered unemployment rate fell from 14.7% in 2006 to 10.7% in 2008 but it increased again to 12.24% in late 2010. According to the latest data of the Employment Agency at the end of 2011, unemployment amounted to 11.55%.⁶³

I worked for 15 years. I used to work on construction sites. Since 1999 I have been registered with the Bureau for the Unemployed. Now I live with €120 social assistance.

UNDP Qualitative Study 2011. Unemployed focus group in Berane

Montenegro has structural unemployment, as some vacancies for highly skilled jobs remain unfilled, which confirms that there is a mismatch between required and supplied skills.⁶⁴ Due to incomplete information and structural rigidities, workers and businesses are not provided with the right level of skills in the right areas, which damages the competitiveness of specific industries. Employment in the mining and processing industry declined while employment in tourism and the construction industry increased. Table 2.11 below provides more detailed information on sectoral employment trends. A strong labour demand in tourism and construction was not met by Montenegrin workers, and seasonal workers from the region were recruited. In 2010, for example, there were 273 scarce occupations⁶⁵ that Montenegrins could not fill.

A particular problem for Montenegro are the long-term unemployed (58% of the unemployed had retained that status for more than a year at the end of 2011) whose share is extremely high in the northern region of the country. Closure of large state enterprises which lost their markets in the period after the dissolution of Yugoslavia and slower dynamics of SME development in this region resulted in unemployment of a large number of working-age people with specific skills (mainly in the processing industry) and now they have reached the age when they may not be easily retrained for the jobs in tourism and agriculture sectors. This human capital is also underutilised and presents a challenge for policy makers.

The structural unemployment and high unmet demand in some sectors can only be addressed through effective human capital policies and interventions. But upgrading skills is not enough: ensuring a better match between the supply of skills and labour market demand is just as necessary.

The next decades will see an increasing demand for a highly qualified and adaptable workforce. The proportion of jobs requiring high levels of education attainment will inevitably rise while the share of jobs requiring low levels of education attainment would decline.

⁶² Montenegro, Ministry of Labour and Social Welfare, National Strategy for Employment and Human Resource Development, 2012-2015.

⁶³ On the other hand the data of Labour Force Survey which is conducted by MONSTAT every quarter shows that in 2011 the unemployment rate was 19.7%

⁶⁴ Strategy for development of the energy sector in the Republic by 2025. (Ministry of the Economy, Podgorica, 2007)

⁶⁵ Employers' survey 2010/2011, Employment Agency of Montenegro, February 2011. In previous analyses of the Employment Agency (employers' surveys) there is the following data about scarce occupations: 2004 – 328; 2005 – 332; 2006 -352; 2007 – 479; 2008 – 395; 2009 – 193.

Table 2.11: Structure of employment, by economic activity (%)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Agriculture, forestry and water management	2.04	2.04	3.08	2.75	2.04	1.93	1.73	1.7	1.6	1.6	1.45
Fishery	0.04	0.04	0.09	0.06	0.04	0.07	0.08	0.1	0.1	0.1	0.06
Mining	3.19	3.19	3.82	3.82	3.19	2.83	2.76	2.4	2.2	1.8	1.44
Processing industry	18.31	18.31	22.53	21.65	18.32	17.99	17.28	16.4	14.6	12.5	10.24
Electricity generation	3.83	3.83	4.17	3.88	3.83	3.81	3.73	3.6	3.6	3.1	2.70
Construction	4.79	4.79	4.40	4.57	4.79	5.24	4.54	4.2	5.3	5.7	4.89
Wholesale, retail, repairs	16.80	16.80	11.98	14.02	16.80	16.48	19.63	19.7	19.2	20.7	22.83
Hotels and restaurants	6.67	6.66	6.12	6.32	6.66	7.70	7.25	7.2	8.8	9.6	8.12
Transport, storages and communications	9.86	9.86	10.60	10.16	9.86	9.52	8.05	7.3	7.7	8.0	7.75
Financial mediation	2.32	2.32	2.36	1.96	2.31	2.09	2.06	2.0	2.1	2.2	2.45
Activities related to real estate	3.27	3.27	2.79	2.97	3.28	3.51	3.92	3.4	3.4	4.2	5.73
Public administration and compulsory social insurance	6.51	6.51	6.54	6.62	6.51	6.60	6.86	11.2	11.2	10.8	11.67
Education	9.13	9.13	9.59	9.12	9.13	8.99	8.52	8.1	7.8	7.5	7.33
Health and social insurance	8.09	8.09	7.06	7.02	8.09	7.76	7.97	7.7	7.4	7.0	6.95
Other utilities, personal and public services	5.15	5.15	4.89	5.06	5.15	5.49	5.63	4.8	4.9	5.2	6.40

Source: MONSTAT

Labour productivity has to be increased. Productivity is a measure of the efficiency with which an economy's resources such as labour, capital, energy and materials are utilised to produce goods and services. Productivity growth is one of key drivers of economic growth and human development. Labour productivity, measured by gross domestic product per number of employees, in Montenegro in 2009 constituted 22% of the average productivity of 27 members of the European Union (see Table 2.12). While the GDP per person employed in the EU 27 reached a level of €54,142, Montenegro produced only €11,575. The productivity in the industrial sector is 80% lower than the EU average. The only sector where Montenegro is ahead of EU countries in terms of productivity is agriculture where the productivity is 12.5% higher than the European average.

Low productivity in Montenegro is determined by such factors as limited opportunities for economies of scale, the small domestic market, under-investment, ineffective management and organisation, uncompetitive and under-developed technology and the inability of human capital to meet the needs of the market of the 21st century. Labour productivity cannot be increased without investment and effective policies addressing human capital development in the country.

Challenges of globalisation and EU integration require new human capital competencies and skills. The processes of globalisation of markets, expansion of technology including the internet, unlimited travel and global ideas exchange can enrich the lives of people in Montenegro and expand their choices. It is insufficient to open the economy to competitive markets, assuming that these processes will benefit everybody. In an era of rapid economic change, workers not only need better preparation, they also need sufficiently robust skills to adapt to changing requirements on the job.⁶⁶

66 OECD. Katerina Ananiadou and Magdalena Claro. 21st Century Skills and Competences for New Millennium Learners in OECD Countries. Working paper no. 41. OECD 2009



Table 2.12: Labour productivity in Montenegro (LFS, MONSTAT)

2009	GDP (€ thousands)	Number of employees (2009)	GDP/employee	BDP/employee - EU 27, 2008	Difference between MN and EU 27 labour productivity (%)	GDP structure	Employee structure
Agriculture, hunting, forestry and fishing	246,812	13,800	17,884.9	15,900.0	12.5%	9.99%	6.46%
Industry	334,982	29,900	11,203.4	56,700.0	-80.2%	..	..
Mining and Quarrying	19,653	4,300	4,570.5	..	..	0.80%	2.01%
Manufacturing	145,791	20,000	7,289.6	..	..	5.90%	9.36%
Production and supply Electricity, gas and water	169,538	5,600	30,274.6	..	..	6.86%	2.62%
Construction	161,538	14,300	11,296.4	43,400.0	-74.0%	6.54%	6.69%
Trade, transport and communication	640,884	64,200	9,982.6	40,900.0	-75.6%	..	..
Wholesale and retail trade	357,070	46,200	7,728.8	..	..	14.45%	21.63%
Transport, storage and communication	283,814	18,000	15,767.4	..	..	11.48%	8.43%
Financial intermediation	120,825	3,900	30,980.8	91,400.0*	-66.1%	4.89%	1.83%
Other services	967,506	87,500	11,057.2	38,600.0	-71.4%	..	..
Hotels and restaurants	152,077	18,000	8,448.7	..	..	6.15%	8.43%
Activities related to real estate	250,686	6,900	36,331.3	..	..	10.14%	3.23%
State administration	254,840	19,400	13,136.1	..	..	10.31%	9.08%
Education	125,440	13,400	9,361.2	..	..	5.08%	6.27%
Health and social services	118,357	12,800	9,246.6	..	..	4.79%	5.99%
Other community, social and personal services	66,106	17,000	3,888.6	..	..	2.67%	7.96%
Private households with employed persons	..	..	..	..	..	..	..
Territorial organisations and bodies	..	..	..	..	..	..	..
Total	2,472,547	213,600	11,575.6	54,142.0**	-78.6%		100%
Taxes on products less subsidies	508,420	..	..	..	..	..	..
TOTAL	2,980,967	..	..	..	..	..	..

* includes commercial activities and financial mediation

** 2009 data

Active equitable human capital building policies have to be developed and implemented to make sure that the population has the necessary skills and knowledge to benefit from the opportunities and rewards of globalisation and prospective EU membership. For example, globalisation and the plummeting costs of communications, have made people around the world burst into business using the Internet. To benefit from these opportunities, the labour force should be well educated and have good work ethics that cannot be achieved without targeted interventions building strong human capital.

It is expected that many future jobs in Montenegro will be in occupations normally requiring higher education. In addition to the abilities normally associated with literacy and numeracy, human capital should have higher-order analytical skills and technological and computer literacy. The challenges of globalisation and the need to improve labour productivity require the labour force to effectively keep pace with rapid technological change. Many of these changing skill requirements can easily be quantified and interventions addressing these areas can be implemented, but modern workplaces typically

require broader, and often less measurable, skills such as communicating, general problem-solving skills, and abilities to work in teams and be creative.

It is insufficient any more to know how to read, write, and do mathematics. Everybody has to learn how to learn to unlock future success. Workers who know how to learn can achieve competency in many other workplace skills, and would not need significant time and resources spent on their training. Montenegro's economy productivity, innovation and competitiveness depend on the development of learning capabilities. Workers who have learning skills can help employers create the conditions for achieving goals and succeeding in the marketplace.

Human capital should be ready to live and work in an ecological state. Montenegro defines itself in the Constitution as an ecological state and notes the significant role of tourism in the economy. In addition to adopting a series of laws and policies protecting nature, such as preventing possible devastation of the coast of the Adriatic Sea, human capital should learn how to live in harmony with the environment. The concept of sustainable development could be embedded into the education system so that children can learn how to be environmentally friendly and use effective waste management practices, for example.

Montenegro should be well prepared to integrate immigrants into its human capital. As Montenegro's population ages, immigration will become increasingly critical to future labour force growth. It is important to develop comprehensive policies and selection criteria based on potential immigrants' human capital.

Conclusions

There are considerable individual benefits from human capital development. Better educated and trained individuals perform better in the labour market, have a lower risk of unemployment and on average earn more income than less educated individuals. Businesses benefit from investments in human capital, as it helps them improve productivity and therefore economic efficiency. Countries benefit from investments into human capital since it helps them increase fiscal revenues, as the tax base becomes greater. Other societal benefits include reduced crime rates, improved health outcome and increased life expectancy (see Table 2.13 below).

Table 2.13: Costs and benefits of investment in human capital

	Costs	Benefits
Public	Public expenditure on education, health, social cohesion	The increase in tax revenues from income tax, reduction of social welfare
Private	Private expenditure on education (including missed revenues)	Increase in earnings due to higher education levels
		Human development, economic growth, reduced crime rates, and improved mortality rates
		Non-monetary benefits such as greater personal satisfaction and health

Most employers believe that investing in employees is a good investment in the company itself.

UNDP Qualitative Study 2011

Investments in human capital are becoming a necessity in modern society due to market globalisation, competitiveness and the need to achieve sustainable growth. The increased investments and economic growth are insufficient to ensure effective human capital development and utilisation, and such issues as inadequate vocational training opportunities, high unemployment, low rates of activity in the working-age population, falling birth rates, ageing populations, quality and accessibility of healthcare, poverty and migration of many young and skilled people should be taken into consideration and addressed.



There are some successful strategies and practices of developing human capital that can and some that cannot be adapted from global or even regional experiences. Since there are universally acceptable recipes of building human capital, the following chapters explore Montenegro's national history, values, traditions, policies and culture to identify the most pressing problems and to recommend solutions that are appropriate to our country's conditions.

A life story

Lives of ordinary people in extraordinary circumstances

Marijana Mugoša has been visually impaired since birth. She was educated at the Institute for Education and Rehabilitation of Children and Youth with Disabilities. There she met her future husband. Zoran Šćekić remained confined to a wheelchair since a traffic accident. Both were, however, persistent in struggle to lead their own life and not to depend on help from others. They graduated from the Law Faculty. Zoran used to prepare tapes with recorded text for exams for Marijana and for his best friend. Marijana works for the Assembly of the capital city Podgorica and Zoran for the Employment Agency. When building their house, they were involved from the very beginning until it was finished. Marijana and Zoran lead independent, dynamic and beautiful lives. In 2008, Marijana got a guide dog, but because of coming to work accompanied by a guide dog she was dismissed. Since then, she has spent all her time working for the Association of Youth with Disabilities. The process against the capital city's decision ended in 2012, when Marijana received a final court ruling to return to her workplace with the guide dog. About the two of them Zoran says: "We're just two ordinary people who want to live their ordinary lives in extraordinary circumstances."

Source: "Lives of ordinary people in extraordinary circumstances", the Media Institute of Montenegro, 2009. The documentary film is part of learning materials for the high school subject of media literacy.



Chapter 3:

Education and Human Capital Development

The economy and society of Montenegro are experiencing a period of rapid and fundamental changes as it faces up to the challenges of global competition, EU accession and technological advance. These challenges are placing particularly important demands on the country's educational system that plays a crucial role in building and maintaining human capital. Global competition will really come down to who has the best human capital, hence creating a flexible, well-educated work force is essential to Montenegro's long-term prosperity and generally to human development. In addition to that, Montenegro's future labour market will be simultaneously confronted with an ageing population and a decreasing share of young people in the overall population. As a result, adults will increasingly be called upon to update and broaden their skills and competences. Employers are no longer interested only in employees' academic or vocational qualifications, but also in other competences that would add value to their businesses. Are young people prepared to meet requirements for changes in the labour market? Do those who have completed education possess the skills necessary to compete in the labour market? Do we have the competencies that are needed in the 21st century such as the ability to work quickly, analyse and organise complex information, take responsibility, handle crises, manage risk and take decisive action? Do we have the necessary digital and media skills for both work and competitiveness?

Competences are defined here as a combination of knowledge, skills and attitudes appropriate to the context. Key competences are those that all individuals need for personal fulfillment and development, active citizenship, social inclusion and employment:

- 1) Communication in the mother tongue;
- 2) Communication in foreign languages;
- 3) Mathematical competence and basic competences in science and technology;
- 4) Digital competence;
- 5) Learning how to learn;
- 6) Social and civic competences;
- 7) Sense of initiative and entrepreneurship; and
- 8) Cultural awareness and expression.

Recommendation of the European Parliament and of the Council of 18 December 2006 on key competences for lifelong learning (2006/962/EC)

Knowledge is increasingly recognised as the key to competitiveness, employment and the long-term development prospects of an individual. Each citizen of Montenegro has to possess key competences to adapt flexibly to a rapidly changing and highly interconnected world. Nobody can be excluded from this process and our country should rely on human capital of all, including people with low levels of basic skills, in particular with low literacy, early school leavers, the long-term unemployed, RAE and other ethnic minority groups, older people, migrants, and persons with disabilities.

It is insufficient to upgrade, adapt and widen the skills portfolio of individuals to create and fill the jobs of tomorrow. It is equally important to empower everybody to step up and become more ambitious about his or her future. It is not enough to encourage more school graduates to enrol at colleges and universities because higher education will facilitate their entry into higher-earning occupations, but it is important to prepare them to be innovative, future-oriented and flexible for work.⁶⁷

"We should build a knowledge-oriented society, because one does not finish school just to get a diploma, but to achieve concrete benefits."

UNDP Qualitative Study 2011. In-depth interview, the Ministry of Education and Sports of Montenegro

⁶⁷ For more on lifelong learning, see The Bruges Communiqué on enhanced European Cooperation in Vocational Education and Training for the period 2011-2020 Communiqué of the European Ministers for Vocational Education and Training, the European Social Partners and the European Commission, meeting in Bruges on 7 December 2010 to review the strategic approach and priorities of the Copenhagen Process for 2011-2020



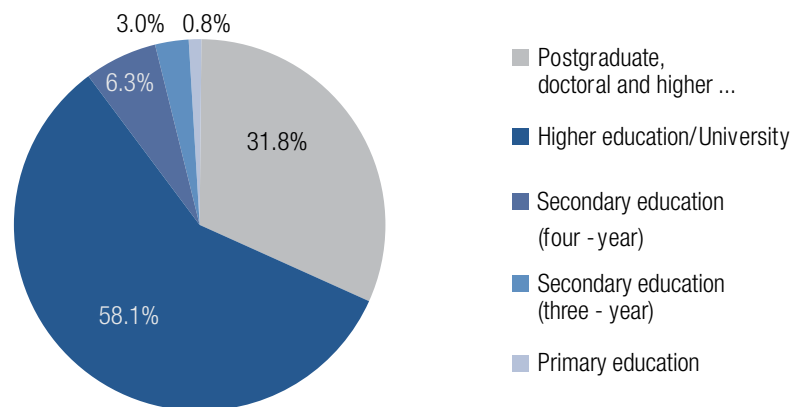
Better education also enhances other components critical to human capital such as health, social capital, empowerment and participation in a society's life. Improved education is associated with lower levels of child mortality and better nutrition and health. Through education, societies inculcate their values and ideas, and teach people how to behave with other people. Better education equips people with the skills to access and process information, and empowers them to hold politicians and public service providers to account. Moreover, better education facilitates informed citizens' participation in policy-making and the country's political life.

Educational System in Transition and its Impact on Human Capital

The Government of the former Yugoslavia maintained high levels of investment in education that ensured universal access to education. Yugoslavia achieved almost universal enrolment rates at primary and secondary schools and high levels of enrolment at higher education with explicit gender balance. The educational system in the former Yugoslavia was stable in terms of educational institutions and curricula. By the mid-seventies, secondary schools and higher educational institutions provided the knowledge and skills necessary for the country's human capital in the pre-globalisation period.

Once Montenegro obtained its independence, it ensured that almost all (non-Roma) children are enrolled in primary education. In the secondary panel, the overall net enrolment rate of 88% was achieved, which is close to the OECD average. The density of university institutions in Montenegro has become comparable to or even higher than other countries in the region. Results of the survey of citizens included in the UNDP 2011 Survey confirmed that Montenegrins highly value the importance of completing higher education. About three-fifths of respondents consider higher education as the most appropriate for their child or grandchild and 31.8% believe that that postgraduate and doctoral programmes would be the most appropriate for them (see Chart 3.1 below for more information).

Chart 3.1: UNDP Survey 2011. In your opinion, what type of education would be the most appropriate for your child/grandchild?



Source: UNDP Quantitative study, 2011

The Government continues to emphasize the importance of education in developing human capital. The overall budget for the sector has been increasing and the educational strategies and policies based on the premise of equal rights and the rights of the child are being implemented. In 2000, a wide reform of the educational system was adopted, with the aim of attaining equal rights and access to education for all children. It incorporates a philosophy of lifelong learning⁶⁸ as well.

⁶⁸ Implementation of several long-term projects aimed at professional development of teachers began back in 1994, of which the the most important one was UNICEF's active learning program Step by Step, while the National Body for Educational Reform was set up in 2000. The Book of Changes was adopted in the following year and included extension of primary school to a nine-year period, introduction of elective classes and an open, flexible curriculum and establishment of the system of external exams and grading. In 2003, Montenegro became engaged in the Decade of Roma Inclusion. In 2004, the General Education Council adopted the new curriculum for primary schools and the Law on Education of the Children with Disabilities was adopted as well. Reforms were launched first in 21 primary schools and were gradually rolled across the entire system; preparations were also undertaken for participation in the project OECD PISA 2006. The overall scope of strategic documents was adopted by 2012. Available

“Most people today think that they need to graduate from university and find an easy job, and not seize an opportunity and prove themselves.”

UNDP Qualitative Study 2011. In-depth interview, the Employment Agency of Montenegro

The reforms are targeted to support the process of social, political and economic transition of Montenegro in the context of global changes. Fundamental goal of the reform is to ensure that the educational system contributes to creation of *knowledge for personal and social development*. This goal means developing the skills necessary for economic progress and active participation in democratic political community, as well as for success in the world of fast, continuous and global changes.⁶⁹

There is no better teacher score than the one given by students.

UNDP Qualitative Study 2011. In-depth interview, the Ministry of Education and Sports of Montenegro

The educational system reform focus was on the student, and the emphasis shifted from memorising facts and other traditional forms of learning to developing skills to apply knowledge in new situations, to student-driven active forms of learning, teamwork, communication practices, critical thinking and learning for democratic citizenship. It was realised that the skills and competencies needed today and in the future cannot be learned only through teaching subjects, but that they also required more cross-curricular and innovative approaches, such as learning-by-doing or project-based learning. The idea is to align learning outcomes with the labour market needs in the context of local, regional and global trends. Such learning outcomes are to be achieved by innovative schools and teachers who are flexible and can take risks, promote life-long learning, democratic and moral values, as well as aptitude for solidarity.

A teacher's confession

Uneducated people and even people with purchased degrees were starting to acquire undreamt-of wealth and social power. It wasn't the first time this had happened. Under the previous regime, too, honorary doctorates were conferred upon people lacking proper education. And now one of the worst students in my school occupies the leading position in one of Montenegro's most strategically important organisations. He once thanked his old English teacher for failing to make him take school seriously. In cases like this, teachers were supposed to hand out low grades and disciplinary measures that would obstruct the advancement of young people for whom the school had long been unsuited. A graffiti on a school wall expressed the reality: "It's your problem that you went to school and have low pay now". A student of mine once asked: "Why do I have to read *The Brothers Karamazov*? My dad's never read anything, and he's got four houses!" In a certain way, I understood him. After all, however significant, the novel had a total of one thousand pages of text. In the biggest tourist company in Montenegro, cleaners went on strike because of low wages. They were warned that their pay was higher than the teachers'. Their reply was very eloquent, "Don't compare us with them!"

As a consequence, low quality teachers got jobs in schools. In the abundance of new values, it was difficult to convince students that education was in fact meaningful. A new vocation now appeared – currency dealing. Mostly uneducated, currency dealers made profits on our hyperinflation, acquiring overnight what teachers were unable to earn for years. Time did not work to teachers' advantage, either. "A teacher can be a dealer, but a dealer can never be a teacher", I would say to my students. This used to make them brood over the odd logic. I brooded over it, too. Some of my colleagues were indeed dabbling in this business.

Hard Waking Up, Montenegro Story, Learning to Change, The experience of Transforming Education in South East Europe, Edited by Terice Bassler CEU Press Budapest New York

The goals of the reforms were aligned with the broader European agenda, but were not effectively supported in Montenegrin educational practice. The reform did not make teachers more inventive and adaptable. It did not lead to development of their stronger willingness for life-long learning. It has been difficult to maintain the high morale and commitment of teachers in conditions of economic polarisation of the society and declining living standards of educators. Moreover, teachers are not rewarded for their performance through the system of titles and/or higher salaries. As a rule, the best students decide not

at: <http://www.mpin.gov.me/rubrike/strateki-plan>. The National Strategy of Life-Long Career Orientation 2011–2015 was adopted in July 2011, building on the concept and obligation of lifelong learning.

69 The Book of Changes, ed. S. Backović, Podgorica: Ministry of Education and Science, 2001.



to work in the education sector and there are deficiencies in the initial training for teachers. Licensing of teachers did not improve the overall qualifications and professionalism of teachers as the focus of supervision was often on class and school administration. As a result, teachers in Montenegrin schools continue following the old teaching routines they learned in the past and find it difficult to change the teaching strategies towards more active learning methods. Montenegro educational reform evaluation showed that lecture as a teaching method and directly related activities are still present in classes.⁷⁰

Taking the first external Matura exam in 2010 revealed that neither schools, nor the central institutions such as the Examination Centre⁷¹, were able to analyse the results to inform state policies and school practices. Due to the pressure coming from different stakeholders, including teachers, the Examination Centre eased the requirements for the essay component, whereas a part of the exam that was to test four-year knowledge achievement was excluded. The procedures for grading essays were formalised, and they did not offer a comprehensive picture of students' learning outcomes. The results were significantly different from those obtained through many years of schooling and assessing different levels and forms of competences.

Reforms of lower levels of the school system were not synchronised with the reform of higher education. In 2010, the budget covered tuition for 4,909 students, while 15,566 of students paid for their education. External Matura has not played a "filter" role in matching school graduates' knowledge, skills and aspirations with university and college departments' entry requirements. As a result, in the absence of enrolment quotas and individual departments' entrance requirements, all school graduates could be admitted to the universities of their choice.

Higher education establishments, both state and private, try to enrol as many students as possible and oftentimes they do not focus on improving the quality of learning and teaching. As a result, a disproportionately high number of students pursue law, economics and various sorts of management degrees. Given that many of them would not be able to find jobs that match their training, these groups of students simply "drain" university and their families' budgets. For example, waiters and cooks enrol at universities to pursue law degrees and students who graduate with law degrees pursue training to become cooks because the labour market demand for lawyers is very limited. Some students who graduated from vocational schools choose to enrol at the Pedagogical Faculty instead of looking for a job. University and college programmes do not meet the labour market needs in such sectors as tourism.

Anyone can study at university today. Most candidates go for law and economics, as these departments enrol the largest number of candidates.

UNDP Qualitative Study, 2011. Students focus group discussion in Nikšić

Montenegro, like many countries in transition, was slow in introducing information and communication technologies (ICT). Since 2003 Montenegro has been implementing the "Strategy for Introduction of ICT" in the educational system up to university level.⁷² When the strategy was launched at the primary level the computer-to-student ratio was 1:174 and only slightly more than 14% of students and 10% of teachers had ICT skills. In secondary schools the computer-to-student ratio was 1:72, while about 18% of teachers and 29% of students were capable of using it.⁷³

Implementation of ICT technologies in school the system is the biggest ICT project in Montenegro. Since 2004, investment in computer technology reached €5.5 million. The implementation of the Strategy with support of international institutions has improved the situation significantly. It has helped teachers to improve their digital literacy and adapt their teaching practices to realities of the 21st century and rely more extensively on students' abilities to learn by themselves using ICT.

70 "As for accomplishing specific reform goals, their value in scores is 0.47 for active learning, 0.41 for critical thinking and communications skills, and 0.38 for team work (within the value range from 0 to 1). Although one may conclude from the data that a dominant type of teaching contributes to the accomplishment of those reform goals, it is worth noting that lecture as a teaching method and directly related activities are still largely present in classrooms."

Source: Montenegro Educational Reform Evaluation, Summary, Network Foundation Open Society Institute, Podgorica, 2012, p. 7.

71 The Examination Centre (Decision on Establishment 2005) conducts external testing of the attained knowledge standards and acquired skills of students. The Examination Centre also prepares and adopts methodology for external testing of students' knowledge, prepares and completes the base of tests and other examination materials, while it also analyses, processes and publishes results of external examination, organises advisory work with schools aimed at provision of technical assistance for achieving a higher quality external examination, organises seminars, counselling, lectures, actively participates in and implements projects aimed at achieving international comparability of educational systems.

72 Strategy for introducing ICT in to the education system of Montenegro (up to university level), Ministry of Education and Science, 2003.

73 *Ibid* pp.8

Some schools, for example, started using electronic class registers. In 2010, the computer-to-student ratio reached 1:15, a dramatic improvement since 2004 when there were 120 students per one computer.⁷⁴

Almost all public polls conducted after 2000 have demonstrated that the level of trust of citizens in the educational system remains high despite the challenges of the transition process. 17% of respondents to the UNDP Survey 2011 rated their satisfaction with education as 5, which is neither satisfied nor dissatisfied, followed by 16.4% of respondents who are very satisfied with their education. In Montenegro quality education is perceived as of great importance and a university degree is seen as a desired goal. The youth in Montenegro, however, adhere mostly to the traditional “vertical” model of learning and less to the “horizontal” model based on flexibility in acquiring additional skills, which can modernise their existing skills and increase mobility in the labour market.

What is Our Human Capital: Exploring the Educational Dimension

Montenegro spent about 4.5% of its GDP on public education in 2010.⁷⁵ Between 2006 and 2010, total educational expenditures in Montenegro increased by 50%, from €89.4 to €134.8 million. This amount is comparable to educational expenditures in other countries in the region. The main focus is placed on primary education, which is followed by secondary and university levels.⁷⁶ At the level of the European Union, the investments in to research amounts to 1.85% of GDP and the goal is to increase it to 3% of GDP. In Montenegro, around 0.12% of GDP has been earmarked for this purpose so far – based on statistical data encompassing allocations from the state budget for this programme.⁷⁷ Only investment in science and research contributes to productivity and economic growth, as shown in research conducted by the OECD in 29 countries in the EU, USA and Japan.⁷⁸

Table 3.1: Investment in research and development in the period 2001-2010 (allocations for R&D in the period 2001-2010 expressed as Gross Expenditure on Research and Development, GERD)

a) Allocations for R&D in the period 2001-2009 expressed as GERD

Year	2001	2002	2003	2004	2005	2006*	2007	2008	2009	2010
GERD⁽¹⁾ (%GDP)	0.513	0.121	0.089	0.180	0.162	0.040	0.141	0.095	0.123	0.12

[1] Indicator that is indirectly calculated as a % of GDP on the basis of data on “intangible” investment available in MONSTAT reports.

Methodological note: Since the questionnaires were not filled out properly, certain estimates were made in the course of data processing. The business sector was not adequately represented in the coverage. The process of statistics improvement continues, while in 2012 this is going to be an official MONSTAT survey.

Source: Kemal Deljić: *Science and research funding. Montenegrin Academy of Science, 2010. Montenegro in the 21st Century, in the Era of Competitiveness, and Ministry of Science, based on MONSTAT data.*

b) Gross budget allocations for R&D – expressed as a percentage of GDP

Year	2002	2005	2010
Gross budget allocations for R&D (€ million)	0.59*	1.19*	4.11**
GDP %	0.044%	0.066%	0.13%

*Source: Ministry of Education and Science, University of Montenegro, Montenegrin Academy of Sciences and Arts, Office for International Scientific, Educational, Cultural and Technical Cooperation

** Source: Pilot statistical R&D survey, Monstat and Ministry of Science, 2010

74 Ministry of Education: Information about ICT implementation in schools, 22.02.2010

75 MONTENEGRO - After the Crisis: Towards a Smaller and More Efficient Government, World Bank Report, 2011, p.69

76 MONTENEGRO - After the Crisis: Towards a Smaller and More Efficient Government, World Bank Report, 2011, p.69

77 For more details see “Investment in Research and Development is Still Low” of this Report.

78 Source: M.Bačović, M.Lipovina-Božović: Knowledge Accumulation and Economic Growth, ASECU, Podgorica, 2010



Children need investments in education. A university degree helps in gaining influence, respect and a better future.

UNDP Qualitative Study 2011. Housewives and long-term unemployed focus group discussion, Berane.

If you can choose between a job in the private and a job in the public sector, then you choose the public administration because of security, the job in the private sector is “the job with small salary and poor conditions”

UNDP Qualitative study 2011. Housewives and long-term unemployed focus group discussion, Berane

In 2009, the share of the educational sector budget allocated for gross salary costs was 93% in primary education and 92% in secondary education. Teachers' salaries, however, still remain below the average in the country, despite significant increases over the last years. The structure of the other costs in the educational sector is unfavourable in Montenegro in comparison to other countries. On average, OECD countries spend 19.2% on non-salary recurrent items and 7.6% on capital expenditures. The large increases in the educational sector in Montenegro, however, were mostly targeting salaries.⁷⁹

Although Montenegro's budget allocation for the educational sector is comparable with budget allocations for education in other countries in the region, students' outcomes are not yet commensurate with the increased budget allocations. It is obvious that it is not enough to increase the salaries, but it is equally important to enhance quality of teaching and adopt modern teaching strategies system-wide. Montenegrin student performance measured through the *Programme for International Student Assessment (PISA, 2009)* revealed inadequate levels in reading, mathematics and science among 15-year-olds and, as such, pointed to the need to continue and deepen the ongoing reform of teaching methods, curricula, and education-sector financing (see Table 3.3).

PISA testing conducted in 2009 showed certain progress in comparison with the 2006 results in reading and mathematics, but the results in science were unsatisfactory. Although it was not realistic to expect more visible progress in three years, it is evident that there are a number of factors contributing to low outcomes in science, such as poor equipment in schools for science subjects and reduced students' interest in science.

Table 3.2: PISA 2006 and PISA 2009 mean scores

	2006			2009		
	reading	mathematics	science	reading	mathematics	science
OECD average	492	498	500	493	496	501
Montenegro	392	399	412	408	403	401
Romania	396	415	418	424	427	428
Bulgaria	402	413	434	429	428	439
Serbia	401	435	436	442	442	443
Croatia	477	467	493	476	460	486
Slovenia	494	504	519	483	501	512

Source: OECD, PISA 2006 and PISA 2009 database

From year to year knowledge is in decline. The lack of reading competences of high school graduates is obvious through the ways they write, express themselves and discuss.

UNDP Qualitative Study 2011. In-depth interview, the Dean of the University of Donja Gorica

Montenegro had a large proportion of students performing at the lowest levels. Level 2 is considered the baseline performance - i.e. the level at which pupils have a basic grasp of key concepts and skills. Across the OECD as a whole, 81.2% of students achieved this level in reading in 2009, compared to only 60.5% of young people in Montenegro. For mathematics, the corresponding figures are, respectively, 78.0% and 41.6%. Moreover, in each subject area, Montenegro had virtually no students performing at the highest level (level 6). In Montenegro, only 0.4% of pupils performed at level 6 in

⁷⁹ Montenegro - After the Crisis: Towards a Smaller and More Efficient Government, World Bank Report, 2011, p.70

reading and 0.1% in mathematics, compared to OECD averages of 8.6% and 3.3%, respectively.⁸⁰ The PISA 2012 results, in particular, will help to assess the effectiveness and impact of the education reforms as the majority of participating students have been educated in the reformed system.

2012 education reform evaluation also showed that specific objectives and standards should be incorporated in the next revision of curricula, so that teaching is more oriented towards developing competences such as teamwork and cooperation, critical thinking, communication skills, as well as towards active learning and attainment of higher taxonomic knowledge levels.⁸¹

In addition to academic challenges experienced by children attending schools, there is a range of other barriers that prevent them from getting high quality education. Table 3.3 below provides a more detailed overview of these obstacles. According to the parents' perception, the worst problem in schools is drugs, followed by social differences between children/students and a lack of discipline in the classroom and little respect for teachers.

Table 3.3: UNDP Survey 2011. How serious are each of the following problems in schools attended by your child or children? Percentage distribution by answers and by scores (1 = very serious problem, 5 = the problem does not exist)

	1	2	3	4	5
Quality of teachers (commitment, motivation, knowledge)	10.4	24.8	36.7	17.7	10.4
Poor quality of curricula	13.6	28.5	33.4	16.4	8.2
Poor material conditions and facilities at school	16.3	33.3	28.7	13.7	8.0
Violence, bullying	18.8	24.0	28.7	16.6	12.0
Children are not interested in learning	12.7	26.9	34.5	16.3	9.6
Drugs	52.0	22.5	13.4	7.4	4.8
Lack of discipline in the classroom and little respect for teachers	22.7	28.5	28.8	13.2	6.7
Social differences between children/students	23.1	28.8	27.6	12.4	8.0
Ethnic/religious intolerance among children	10.0	16.3	28.9	23.4	21.5
Lack of parental interest to support their children in the process of education	9.1	23.9	29.8	16.6	20.6

Source: UNDP Quantitative research, 2011

What Can be Done to Improve Our Human Capital Through Education?

Getting all children through a full cycle of schooling is not enough. To build a country's human capital, children should be equipped with the skills, knowledge and wider perspectives they need to participate fully in the social, economic and political life. To achieve these broad goals, the system of educational governance should be reformed to focus on human capital. It is insufficient to design and implement efficient policies and programmes. The formal and informal processes by which policies are formulated, priorities identified, resources allocated, and reforms implemented and monitored should involve broader groups of partners and stakeholders and be subjected to broader public scrutiny. Parents should be able

⁸⁰ World Bank. 2011. Montenegro. After the Crisis: Towards a Smaller and More Efficient Government Public Expenditure and Institutional Review, World Bank Report, 2011, p.66

⁸¹ Results for all indicators were better at the level of comprehensive schools (gymnasiums) than at the level of primary schools. Since PISA testing involved 15-year-olds, evaluation findings explain to a large extent the lagging behind of Montenegrin students. The evaluation team's recommendations indicate the need to reduce the volume of curricula in order to avoid extensive use of lecturing strategies, the need for further investments in professional training of teachers, for an increase in the level of initial education of teachers, for a system self-evaluation, and closer networking of existing institutions with the aim to improve education quality. Source: Montenegro Education Evaluation, Summary, Network Foundation Open Society Institute, Podgorica, 2012, pages 9-10.



to participate in school decisions, schools and teachers should be held accountable for students' outcomes and politicians and public servants should be held accountable for their actions, including setting priorities and resource management. Schools should be properly resourced, with effective and professional merit-based leadership and teachers should motivate students.

Pre-school and Primary Education

Individuals are born with a set of physical, intellectual and psychological capacities that are further developed through the family, educational system and social environment. If an individual's abilities are not developed at a young age, then he or she will face significant barriers to human development in adulthood. Pre-school education is very important for the development of human capital.

The total number of children enrolled at pre-school institutions in the school year 2009/2010 was 12,405. Compared to the total number of children in Montenegro up to 6 years of age (47,506), the pre-school education coverage was 26.11% of children in the school year 2009/2010 (26.43% of boys and 25.76% of girls).⁸² As an overwhelming majority of young children do not attend pre-school, they miss the opportunities to develop social skills that are so important for academic and personal success.

Mother, child, work

In spite of something which we could describe as positive discrimination of women in some articles of labour legislation, the experience of employed women shows that in practice these articles are not easy to implement and that they are easily avoided and reduced to the level of formality. Thus, it happens frequently that employers give their employees, particularly women, an employment contract to sign together with the decision on amicable termination of employment without date. Now if the employer is not satisfied with their performance, or if a woman needs to be absent from work too frequently, or if she has to go to maternity leave or to care for her children, then she is easily fired.

Although at first sight not closely related to the issues of the educational system, this problem can shed a particularly strong light on the importance of pre-school education and upbringing not only for preparing children for learning, but also for use of female labour in the country and equal access to work.

Women in Politics, Insufficient representation of women in decision-making bodies: The causes solution proposals, Bečići 2011.

Montenegro spends 17% of its educational budget on primary education, which is close to the OECD average of 20%. The importance of maintaining high levels of investment in primary education has been confirmed by numerous available data. Poland, for instance, has significantly improved its PISA reading scores since 2000 and now it spends 25% of PPP on primary education per capita. The Czech Republic has faced a steady decline in PISA reading scores since 2000 with 14% of PPP spent on primary education per capita.

Over the past five years, Montenegro has invested considerable resources in primary education, including infrastructure upgrading, new equipment, revised textbooks and teacher training. There are some first indications that these strategies have worked. The national assessment for 2008 found a positive correlation between the length of a given school's participation in the school reform process and the overall average score.⁸³ In 2012, a first generation of students will graduate from reformed schools and the next PISA assessment will be conducted the same year.

In the school year 2010/2011, there were 71,078 children attending primary school (49% girls) and 99.1% of the appropriate age children were enrolled at school (Chart 3.3). In the school year 2011/2012, the number of children who reached school age was 7,508.⁸⁵ The increase in the number of school age children in the period from the school year 2004/2005 to the school year 2007/2008 as shown in Chart 3.3 was caused by the gradual inclusion of the schools in

⁸² Strategy of early and pre-school education (2010-2015), Ministry of Education and Sports of Montenegro, pp.10.

⁸³ Examination Centre, 2009.

⁸⁴ The research was conducted on sample of 1,000 parents/guardians from the overall population throughout the territory of Montenegro and 200 parents/guardians from the RAE population.

⁸⁵ Data from the Ministry of Interior and Public Administration – Department for Administrative Internal Affairs

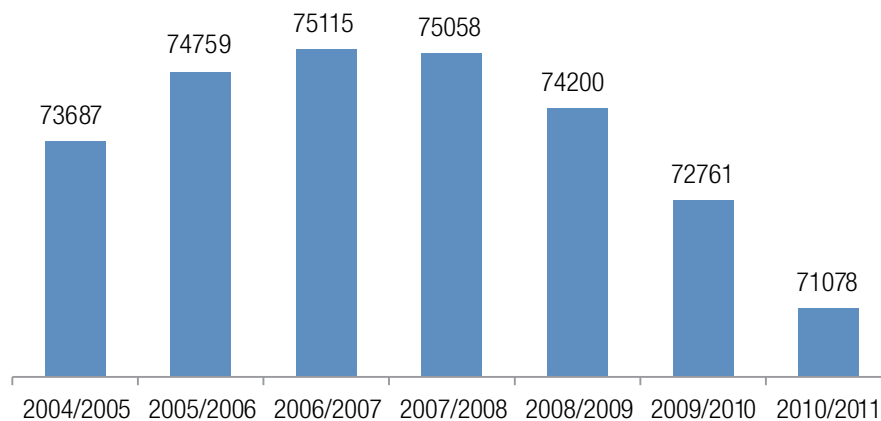


the reform processes, due to which two generations of children (six-year-olds and seven-year-olds) were enrolled in the first grade at the same time.

Attitudes of parents

Data from the survey that UNICEF undertook in 2009⁸⁴ on the knowledge, attitudes and practice of parents/guardians of children under 6, show that when it comes to the development and stimulative activities with children, 73% of parents/guardians say that they play with their children, 72% say that they tell stories to their children, 68% say that they sing songs to them, 64% say that they read books for children and/or picture books, in 59% cases they draw with their children, while 54% of parents/guardians spend time with their children in education activities (counting, naming things etc.). As for the importance of pre-school education, 78% of parents/guardians say it is important for them that their child is included in that type of education. 44% of parents/guardians of RAE children have the same opinion. The opinion of parents/guardians on what is the best form of care for the child before primary school is the following: 53% of parents/guardians say that those are educational institutions, 25% of parents think that it is better if there are a grandmother and grandfather who provide care for the child, 13% choose 'private kindergartens', 2% choose 'nannies', while 6% of parents/guardians did not answer. Parents/guardians provide the following reasons for including children in pre-school education: spending time with their peers (83%); learning to share with others (41%); playing with peers in a group (29%); and kindergarten as a safe and secure place for the child (26%). These results show the need to inform parents additionally on the importance of early development and stimulation and on the importance of the role they have as first teachers for their children in this most important period of their development.

Chart 3.3: Trends in the number of students in primary education in Montenegro in the period from 2004/2005 to 2010/2011



Source: Strategy for Development of Primary Education and Action Plan (2011-2017)-Proposal, pp.15

In the school year 2011/2012, the average number of students in one class was 23. The average number of students per one teacher was 14. The student/teacher ratio varies from town to town, between 18.5 students (Budva) to 4.4 students per one teacher (Šavnik).⁸⁶

Some schools lack space to accommodate all the students. This means that new schools need to be planned and built, particularly in Podgorica so that the optimum number of students per class could be achieved and that preconditions for higher-quality work can be fulfilled.

Primary education is compulsory and with the recent reform, it was extended from eight to nine years and split into three cycles. In the first grade, two teachers work with children: a teacher from kindergarten and a primary school teacher. Marks are descriptive, and children learn actively through games. However, besides good active learning plans and rather good teacher training in this sector of the system, changes are being implemented slowly. Teachers oftentimes follow their old habits, overloading children in the second and the third grade of the first cycle. There are sometimes incidents of corruption

⁸⁶ Strategy for Development of Primary Education and Action Plan (2011-2017) - Proposal, pp.15.



because children are not able to learn everything that is required in regular hours and parents are too busy. There is also a practice of delivering private lessons, which creates barriers for many families to access quality education.

Primary education was traditionally a stable component of the educational system in the socialist era, but this stability was undermined in the times of transition. Frequent curriculum changes reflected the changes of dominant political views. Assessment became increasingly difficult as the pressure on teachers increased, because success in the primary school is a basis for secondary school enrolment. Standards disappeared and the focus of teaching is still on memorising facts. Because of that, pupils show a low level of basic knowledge and skills, important for further education.

Financing strategy, introduction of new forms of education, more practical work, new school subjects, all of this is being implemented. But it is all getting a different dimension, a political one.

UNDP Qualitative Study 2011. In-depth interview, the Montenegro Business Alliance

The following areas of pre-school and primary education have to be addressed to support effective human capital building:

- Create favourable conditions to increase the number of licensed private providers. So far the requests for obtaining licences have been submitted by 13 organisations from Podgorica and Bar that involved 196 children in the school year 2009/2010.⁸⁷
- Introduce safeguards to eliminate additional, non-formal payments and corruption, mostly through private lessons. In spite of a whole set of laws in this field, the practice results in an unequal access to education for socially excluded groups.
- Improve teacher training in modern concepts of learning/teaching, student assessment and curriculum development.
- Consider the idea of relicensing teachers and introducing and implementing ethical standards for teachers.
- Assess teachers' performance, abolish "equal salaries for all" approach to teachers' salaries and introduce merit-based incentives for teachers.
- Increase the awareness of the public about the importance of early development and learning.
- Improve monitoring and suppression of violence in schools and cooperation with the Centres for Social Work.
- Reduce politicisation of school management.
- Intensify implementation of the Strategy for Early and Pre-school Education (2010-2015).
- Improve coverage of children from socially excluded groups and groups at risk of social exclusion (e.g., RAE children, children with disabilities and children with development difficulties, children at risk (such as children from dysfunctional families and families living in poverty, children without parental care, children from distant rural areas). Get more intensively involved in research, individual monitoring and investment in children at risk of poverty and social exclusion. In that sense, it would be desirable to allocate funds (at the municipal level) to support extracurricular activities for talented children from these categories.
- Increase support, the aim of which is to avoid institutionalisation of children without parental care, as well as for children without parental care when they leave institutions.
- Improve early identification, curriculum development and support for children with disabilities and children with development difficulties. There are no official statistics about the number of children with disabilities and children with development difficulties and the system does not distinguish them until they start primary school. Because of a limited number of experts for special education, improvement of early learning for children with disabilities and children with development difficulties has become a big challenge.
- Customise service delivery models to meet specific needs of regions, municipalities and communities, particularly for employed parents. Implement innovative methods and more flexible models of work and cooperation with parents/guardians/foster families.
- Ensure that all schools have sufficient space to provide a environment conducive to learning. The current average area is 1.5 m² per child, which is significantly lower than the required norm of 3 m² per child.

⁸⁷ There is no exact number of non-governmental organisations that perform this activity, nor the number of children they involve.



- Promote volunteerism in this segment of education. It would create important preconditions for development of the social capital of the country. (The aforementioned example of a practice to promote volunteerism of students by United World Colleges may serve as a model)
- Improve the work of faculties offering initial teacher training, because their work does not follow adequately developments in the sphere of education, according to the Ministry of Education's opinion. Introduce a process of selection for students who embark on a teaching career.⁸⁸
- Encourage men to pursue teaching careers, especially at the primary level where the profession is dominated by women. Women constitute 73% of the teaching staff, while only 27% of educators are men. As it is very important for child development to learn about different gender perspectives and patterns of behaviour in school, additional incentives should be introduced to attract men in to teaching.
- Ensure universal access to the Internet and information technology for all children, and particularly for children coming from poor families (beneficiaries of rights and services of the social protection system) and families at risk (dysfunctional families). An example of such initiative is the action "Computer for Every Child" (<http://one.laptop.org/>).⁸⁹
- Provide support to talented children from socially vulnerable and dysfunctional families, by establishing a mini fund at the local government level that would be used to finance extracurricular activities in areas those children are talented in: exp. sports trainings, different groups of subject (science, music, art, etc.), and thus encourage their participation in projects such as Young Inventors, robotics, etc.

Secondary Education

Despite some achievements at the secondary school level, students are often inadequately prepared for college and university programmes, not only in terms of their academic training but also in terms of their personal management of time and resources and their generic and interpersonal skills. The educational system oftentimes does not follow changes related to the skills required by the labour market. As a result, many individual education and training decisions are made without competent career guidance and counselling, and they lack understanding of an individual student's potentials, opportunities to choose different careers, labour market demand realities and employment prospects. Many vocational training programmes continue providing obsolete skills and knowledge and do not develop key competencies necessary for the 21st century.

The decision on the future career should be made taking into account individual preferences, and taking into account labour market trends.

UNDP Qualitative Study 2011. Young people seeking a first job, focus group discussion

Secondary education has two components: 1) comprehensive school (gymnasium); and 2) vocational education (e.g. medical technicians, economics technicians, tourism technicians, electrical engineering occupations, cooks, waiters, education for low-skilled workers in tourism, shop assistants, car mechanics, etc.) where children are taught more practical, workplace oriented skills.⁹⁰ General education in comprehensive schools (gymnasiums) is relatively demanding as they prepare students for any of the desired faculties. They offer elective subjects to support individual student's interests. However, the implementation of elective subjects often faces a number of challenges such as to provide teaching for a limited number of students, schedule classes, provide missing textbooks and specialised classrooms where students can attain necessary skills, particularly in science subjects. Still, it is generally believed in Montenegro that the secondary educational system is able to provide an adequate level of education. Two-thirds of respondents of

⁸⁸ Strategy for Development of Primary Education and Action Plan (2012-2017), Podgorica, 2011.

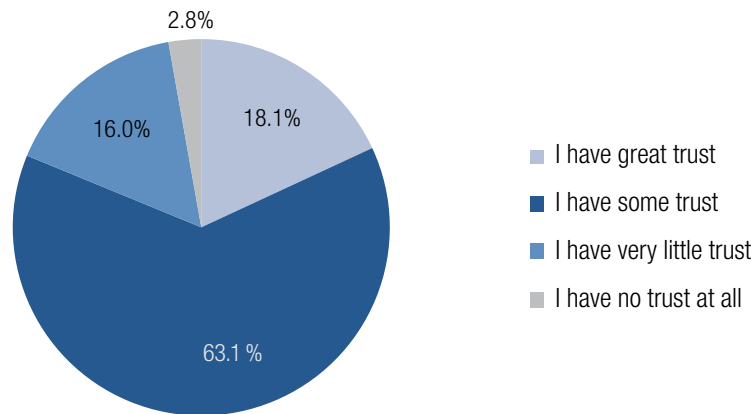
⁸⁹ "We aim to provide each child with a rugged, low-cost, low-power, connected laptop. To this end, we have designed hardware, content and software for collaborative, joyful, and self-empowered learning. With access to this type of tool, children are engaged in their own education, and learn, share, and create together. They become connected to each other, to the world and to a brighter future." - <http://one.laptop.org/>

⁹⁰ There are 82 educational profiles in the vocational education system of Montenegro – two two-year, 35 three-year and around 45 three-year programmes. Source: National Strategy of Employment and Human Resources Development 2012-2015, Ministry of Labour and Social Welfare, Podgorica



the UNDP Human Capital Survey 2011 have some trust in the system, while 18.1% have a great deal of trust in the educational system (see Chart 3.4 below).

Chart 3.4: UNDP Survey 2011. How much trust do you have in the ability of the secondary school system to deliver proper education?



Source: UNDP Quantitative research, 2011

There were 32,126 students enrolled at secondary schools in Montenegro at the beginning of the school year 2010/2011, of whom 15,632 were girls, which is 49%. Most comprehensive school (gymnasium) students attend the school in Podgorica (31%), while that percentage is only 1% for the three smallest municipalities, Šavnik, Plužine and Žabljak together. Comprehensive schools (gymnasiums) are attended by 10,332 or 32% of all students; secondary schools of economics, law and administration are pursued by 5,199 (16%) of students; trade, hospitality and tourism by 4,936 (15%) of students; and in all other sectors there are 37% of students altogether.⁹¹ There is a clear discrepancy between the labour market needs and distribution of students across the schools, as some of those needs remain unaddressed.

There are about 21,000 students in vocational schools, which is 68% of the total number of students in secondary schools. The vocational educational system in Montenegro has different levels: a lower vocational education (up to two years), secondary vocational education (three or four years) and higher vocational education (up to two years, upon completion of secondary school). Education and training are provided through both general education and vocational areas. In the school year 2009/2010, new curricula were introduced and students have started taking external vocational exams. Since the beginning of implementation of the new legislation in the field of secondary vocational education, 83 curricula have been developed for two-, three- and four-year occupations. Preparations for development of curricula for higher vocational schools are underway.

In the school year 2009/2010, 7,426 students completed secondary schools. Of that number, there were 3,774 girls, or 50.8%. Forty-nine students finished secondary schools for children with special educational needs; out of that number, 28 are girls, which is 57.1%. As Table 3.4 below demonstrates, the graduation rates have remained at the same level since the school year 2000/2001.

A diploma is not sufficient. Young people need to prove their knowledge in their workplaces.

UNDP Qualitative Study 2011. In-depth interview - the Association of Pensioners of Montenegro

Within the overall educational system the secondary vocational education is the weakest element, although it is one of the most important factors shaping the country's human capital development.⁹² There is no demand for certain occupations any more (such as the occupations in the field of industry, which saw a tremendous decline in its share in the

91 MONSTAT, Annual Report, 2011.

92 Vocational Education Development Strategy of Montenegro (2010-2014), Podgorica, 2009.

economy in the transition period), but vocational education institutions continue training students for those occupations.⁹³ However, a series of reforms of vocational education and training (VET) have been implemented. The reforms included modernised curricula and a transition towards a modular system whereby students can move through a hierarchy of qualifications or pick up qualifications as they go through working life. Entry requirements for higher education have also been changed, to facilitate easier access to higher education for graduates from secondary VET occupations.⁹⁴

Table 3.4: Regular students that finished secondary education – end of school year

School year	Regular secondary schools			Secondary schools for children with special educational needs		
	Total	Girls	Boys	Total	Girls	Boys
2000/2001	7,468	3,874	3,594	29	11	18
2001/2002	7,411	3,782	3,629	39	14	25
2002/2003	7,665	3,889	3,776	39	14	25
2003/2004	7,461	3,791	3,670	34	11	23
2004/2005	7,466	3,838	3,628	42	12	30
2005/2006	7,711	3,959	3,752	41	17	24
2006/2007	7,370	3,738	3,632	53	28	25
2007/2008	7,256	3,763	3,493	50	23	27
2008/2009	7,264	3,709	3,555	54	26	28
2009/2010	7,426	3,774	3,652	49	28	21
2010/2011	7,610	3,776	3,834	41	18	23

Source: MONSTAT, *Statistics in education, research and development, culture, judiciary and administration*

The following areas of the secondary educational system have to be addressed to support effective human capital building:

- Delegate more authority to schools and transfer some responsibilities to parents, teachers and principals. Such governance reforms can change incentives and promote focus on students' outcomes.
- Since the number of dropouts is the highest in the secondary vocational education, measures must be undertaken to keep the students at risk in school and reduce the dropout rates. Students at risk need effective and innovative school–work transition programmes. These programmes must provide opportunities for students to earn credit points to meet diploma requirements, while also preparing them to proceed directly to employment or self-employment. Such programmes should take into consideration the local labour market supply and demand and be developed in collaboration with different partners. These partners must include representatives of the business community and employment services and agencies.
- Introduce modularised programmes, which provide students with the opportunity to obtain broad basic vocational knowledge applicable in several possible occupations within one profession. For example, a general issue about enrolment at secondary vocational school for tourism is that there are only a few students who apply for the occupations of cooks or waiters. If modularised teaching models were adopted, all students would have to learn basic occupations in tourism.
- Improve the technical base of vocational schools in order to upgrade the working conditions. The lack of modern teaching aids and materials is frequently mentioned as an obstacle for applying modern teaching and learning methods.⁹⁵

93 The highest interest in three-year vocational schools is expressed for service sector occupations, for certain occupations in the field of electrical engineering, transport and administration, while much less interest is expressed in the sectors of forestry, mechanical engineering, metal processing, textile, leather production and construction. The highest interest in four-year vocational schools is expressed for occupations in the sectors of medicine, economics and tourism where every year the number of candidates is higher than the number of available places in schools. The number of candidates also exceeds the number of available places in schools in the sectors of electrical engineering and transport. In other fields, the number of available places is considerably higher than the number of candidates.

94 World Bank. 2011. Montenegro. After the Crisis: Towards a Smaller and More Efficient Government Public Expenditure and Institutional Review, World Bank Report, 2011, p.78.

95 2011 Work Report, Education Office, Podgorica, pp 35-36.



- Ensure that the tools for assessment of students' achievements are diverse in a way to be able to evaluate and assess students' specific skills and knowledge, as well as to reflect students' ability to think creatively and to be innovative and adventuresome in problem solving.
- Improve the quality of teaching staff in secondary vocational schools. Teachers of vocational subjects should have the opportunity to improve their knowledge and skills related to their profession, but also in areas of psychology, pedagogy and didactics.
- Facilitate impact of the National Qualifications Framework on human resources development and ensure comparability with qualifications in other countries.
- Address gender stereotyping of specific jobs. For example, German International Cooperation (Deutsche Gesellschaft für Internationale Zusammenarbeit - GIZ) supported the Girls' Day in Montenegro that provided girls with opportunities to visit various workplaces and explore traditionally male occupations. Such practices should be more widely and regularly implemented.
- Enhance the role of Matura exams and introduce stricter admission criteria to university programmes training lawyers, economists and other professionals, bearing in mind that their employment opportunities are limited due to an already high number of those who wait for a job.
- Promote citizen skills of students through awareness programmes and involving them in local social and cultural programmes and activities.
- Encourage private initiatives in higher vocational education.

Higher Education

There are three accredited universities in Montenegro, of which the University of Montenegro (UCG, *Univerzitet Crne Gore*) is the only state-owned university. The Mediterranean University (UM, *Univerzitet Mediteran*) and the University of Donja Gorica (UDG) are two (accredited) private universities. Collectively, these institutions provide Montenegro with a university density that is comparable to most other countries in the region.

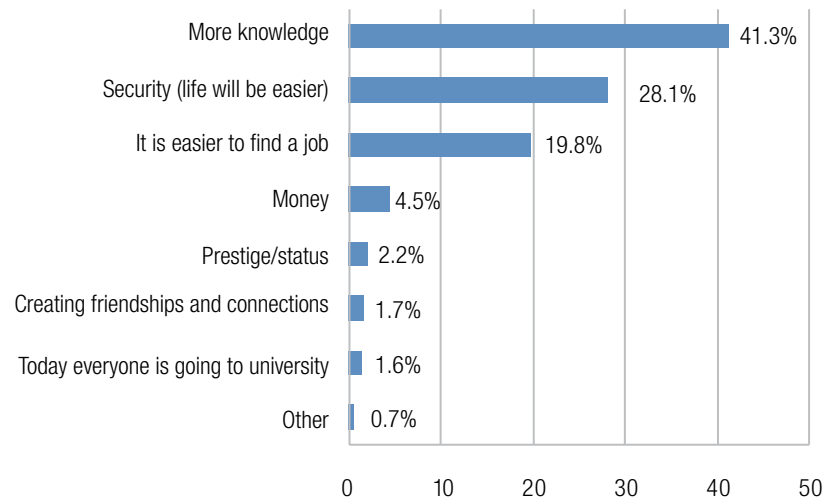
Montenegro has followed the principles of the Bologna Declaration (1999) in its reforms of higher education. The Bologna Declaration aims at creating a uniform European system of universal teaching and research and create a more flexible and more competitive system of higher education in Europe. The three priorities of the Bologna process are: introduction of the three-cycle system (basic studies, Master's studies, and doctoral studies), quality assurance and recognition of qualifications and periods of studying.

Three levels of education were established in Montenegro: basic, Master's and doctoral studies. New methods of grading were introduced, including the final exam, with the emphasis on the student's performance throughout the year. If a student does not pass the final exam, he or she has an opportunity to take it again in the remedial examination. If he or she fails again, the course has to be repeated in the next term and the exam taken upon its completion. Under the Bologna process reforms, students take written tests instead of previously administered oral exams. The evaluation of teachers and their work was introduced, so that students can evaluate their professors through surveys.

The first positive results of the reform are a 50% increase in the number of students enrolled since 2004, which confirms that higher education is highly valued in the society. Two-fifths of respondents to the UNDP Survey 2011 believe that a university diploma is worth the effort because more knowledge is gained. For 28.1% of respondents, the university diploma signifies security or an easier life, and for 19.8% it implies an easier way to find a job (see Chart 3.6 below). These positive outcomes should be viewed with some caution, as the higher educational system tends to overproduce graduates who face difficulties in finding a job on the labour market, which is in addition strongly stratified by region.⁹⁶

⁹⁶ The highest shortage in the northern Montenegro has been identified in terms of the 7th degree of professional qualifications, while the central and southern regions of the state experience shortages in terms of the 3rd level of professional qualifications. Source: Analysis of Shortage Occupations in Montenegro, Employment Office of Montenegro, Podgorica, 2006. Similar indicators may also be found in the employers' survey for 2011 and 2012.

Chart 3.5: UNDP Survey 2011. Why do you think university diploma is worth the effort? What do you gain with it?



Source: UNDP Quantitative Survey, 2011

According to the data from all universities, there are improvements across the board in students' outcomes compared to previous years, while in some faculties the results are significantly better. Approximately 60% of students pass their exams and the same positive trend has been recorded in some of the programmes with a traditionally small number of students passing exams.

The implementation of reforms is hindered by a high student/professor ratio where it happens, particularly at the state university, that instead of one professor per 30 (at most 50 students), they have to teach hundreds of students. These working conditions create barriers in implementing effective teaching, assessment and provision of support to individual students.

Introducing the Bologna process increased the enrolment of students, but has not improved their employability upon graduation. The higher educational system allows all students who graduate from secondary school to be admitted to university, but this is not harmonised with the labour market needs. Most students go to "popular" groups of faculties - of all students enrolled at regular studies at the University of Montenegro (18,229) 22.4% are enrolled at the Faculty of Economics (4,085), while 17.8% are at the Faculty of Law (3,247).⁹⁷ There is a great disproportion in the number of students in social and humanities groups and those in natural sciences, mathematics and engineering, with a decrease in interest of secondary school graduates in the latter.⁹⁸ Higher educational institutions do not manage to enrol a sufficient number of students for some occupations such as engineers of electronics, power energy and civil engineering, and then mathematics, physics and chemistry teachers, pharmacists, etc.

As the number of university students has increased, the number of young people who want to obtain certain level of vocational degree has declined. Montenegro, for example, has labour shortages in tourism and agriculture. In 2010, there were 14,000 legal foreign workers in the country, while unemployment among young people amounted to 45.5% and youth unemployment accounted for 20% of overall unemployment.⁹⁹ This issue is a part of the community social capital issue, as young people's belief in hard work and its results has been significantly weakened with examples of people becoming wealthy in easy and quick ways during the wars in neighbouring countries and the transition.

In addition to insufficient and ineffective financing, there is no adequate system for ensuring quality teaching either, and mobility of students and professors should be further improved, which may be facilitated by the fact that Montenegro is involved in EU programmes dealing with this matter. The national education legislation does not have norms and standards. As Montenegro is not included in the European Academic Area and European labour market, the universities of Montenegro

97 Data from Bulletin of University of Montenegro no. 276, September 2011, p.8.)

98 Montenegro in the 21st Century – In the Era of Competitiveness, CANU, Podgorica, 2010, p. 248

99 National Strategy for Employment and Human Resource Development 2012-2015, Ministry of Labour and Social Welfare, Montenegro



are not included in university ranking systems, which would help to compare them with other European institutions. Taking into consideration the fact that Montenegro is an EU candidate country, it would be useful to compare the performance and quality of the universities of Montenegro with other European universities, and, eventually increase mobility of students and professors.

The premise that, once found, a job should be kept until retirement, ought to be changed.

UNDP Qualitative Study 2011. In-depth interview, the Montenegro Business Alliance

A study by the Montenegrin Academy of Sciences and Arts establishes that the deficiencies of the educational system of Montenegro lead to absence of a national consensus on higher education.¹⁰⁰ As a result, education is not yet a national priority, and the sources for funding the country's educational system are not stable. This means that during the periods of economic stagnation of the country, the financial resources invested to raise the level and quality of education are reduced despite the fact that this should not happen since financial resources allocated for education are a crucial investment in the country's human capital. Taking that into consideration, it is necessary to encourage greater involvement of the private sector and if possible of corporate donors in the educational system.

Another significant institutional obstacle is that the Council for Higher Education, which is the central body in the area of higher education, is still not fully independent and it does not perform yet all its tasks in accordance with the law. Some of these roles include creation of institutional partnerships and cooperation among higher education institutions at both the domestic and the international levels.

Higher education institutions do not conduct enough research activities and focus mostly on teaching. The implementation of the Strategy for Scientific and Research Activity of Montenegro 2008-2016 has been an important step towards establishing greater importance of research activities that may change this trend.

The following areas of the higher educational system have to be addressed to support effective human capital building:

- Establish a strategic approach to the development of higher education.¹⁰¹
- Increase funding and create incentives for professors.
- Facilitate networking of Montenegrin universities with foreign universities at the European and international levels. The existing isolation is partly a consequence of the insufficient knowledge of the English language and other languages such as French, Spanish, German and Russian, etc. It is necessary to intensify universities' connections with the educational systems of those countries that share the same development goals and are geographically and culturally proximate.
- Establish national standards to assess and evaluate the quality of teaching, research and publications within the academia, to ensure that both state-funded and private institutions have high standards of teaching and research. It will encourage professors to continuously improve in both teaching and research.
- Promote and encourage research in higher education institutions. Allow professors to take sabbatical leaves of absence to conduct their research activities in foreign universities.
- Increase even more the mobility of students and professors.¹⁰²
- Align the higher educational system with the labour market realities.
- Provide funding to establish distance learning systems. Create a national council for designing and monitoring distance learning systems.
- Support universities and their libraries in getting access to electronic journals and scientific and professional publications.

¹⁰⁰ Negative aspects of the higher education expansion are reflected in the lack of strategy and mismatch with the labour market needs, lack of regulators and incentive measures which would lead newly established higher education institutions towards the achievement of the quality of education they provide, while the institutional set-up of higher education has not been developed sufficiently; on the other hand, higher education institutions mainly focus on dissemination of knowledge, while neglecting research and building new knowledge. Source: Montenegro in the 21st Century - In the Era of Competitiveness, CANU, Podgorica, 2010. p. 27.

¹⁰¹ Draft Strategy for Higher Education Development and Funding was released in March 2011-2020. The document states the following: "The current funding model for the University of Montenegro is based only on data on expenditure which refer to full time professors, administrative staff and operational costs".

¹⁰² So far, the most important are TEMPUS projects, AP7, EPS.

Any future strategy of economic development of the country has to include better use of human knowledge, skills and mobility. Continuous and planned investment in human capital will contribute to the human development of the country.¹⁰³

Cross-cutting Educational Sector Challenges and Recommended Solutions

Learning is now a fact of life and knowing how to learn is perhaps the most basic of all skills because it is the key that unlocks future success. Workers who have “learned how to learn” can achieve competence in other required workplace skills as well, but for those who have not, learning is neither as quick, nor as efficient or comprehensive. Workers who know how to learn can prove to be valuable because time and resources spent on training can be reduced. As learning is not only formal and classroom-based – it should be lifelong, include all citizens; be based on modern information and communication technologies and flexible. The following discussion explores such cross-sectoral aspects critical to human capital creation in the 21st century and contains specific recommendations.

Young people are becoming aware of the importance of education and lifelong learning, and more often they are able to attend various seminars, conferences, summer schools and other forms of personal development during their study.

UNDP Qualitative Study 2011. In-depth interview, the Dean of the University of Donja Gorica

Expanding Lifelong Learning Opportunities and Linking Them to Labour Market Needs

The concept of lifelong learning has widely been applied across OECD countries. Although formal education is a central part of lifelong learning, much learning happens outside schools and universities, through the involvement of parents, employers, business partners and voluntary organisations. Individuals, firms, communities and the government should provide multiple learning opportunities throughout an individual’s life span. This includes not only a major expansion in the volume of learning activity but a new relationship between a learner and a provider.

Lifelong learning opportunities should help all citizens of Montenegro to adapt to the knowledge-based economy. Once people attain formal education and build their learning skills, they have to be provided with opportunities to continually renew and improve their skills and competencies. These opportunities should be as diverse as possible and include university courses, books, and commercial distance-learning products, peer learning, mentors and formal public sector institutions. Non-formal educational programmes may be extremely diverse and may differ in terms of objectives, target groups, content, pedagogy and scope. The importance of lifelong learning in Montenegro will increase as its future labour market is simultaneously confronted with the ageing population and shrinking cohorts of young people entering initial education and training systems and labour markets. It will require meeting the challenges of continuous technological development and changing economic requirements through constant updating and broadening human capital skills and competences through lifelong opportunities. Furthermore, technological progress and the demands of the new knowledge-based economy mean that qualifications are becoming obsolete more quickly than ever, which makes lifelong learning a necessary element of everybody’s life.

Diverse strategies customised to circumstances of specific groups of learners should be adjusted to encourage them to pursue lifelong learning opportunities. Asked for the reasons of non-attending school (longlife learning) more than one-third (37.9%) of the UNDP Survey 2011 declared that they were educated enough; 15.6% said it was hard for them to do it; 15.3% had no motivation for learning. The percentage of those who answered the reason as “other” is 9.8%. The lack of money needed for schooling was mentioned by 6.3% of respondents, and 5.4% declared they had to take care of children. Most of the respondents (87.8%) had no intention to continue education (See Chart 3.5 below).¹⁰⁴

A lack of stable investments at all educational levels and in the area of lifelong learning is one of the main challenges of the educational system of Montenegro. In 2008, for instance, only 6.8% of employers have offered some forms of training to their staff.¹⁰⁵

¹⁰³ <http://www.zzzcg.org/shared/Casopis/Trziste%20rada%207.pdf>

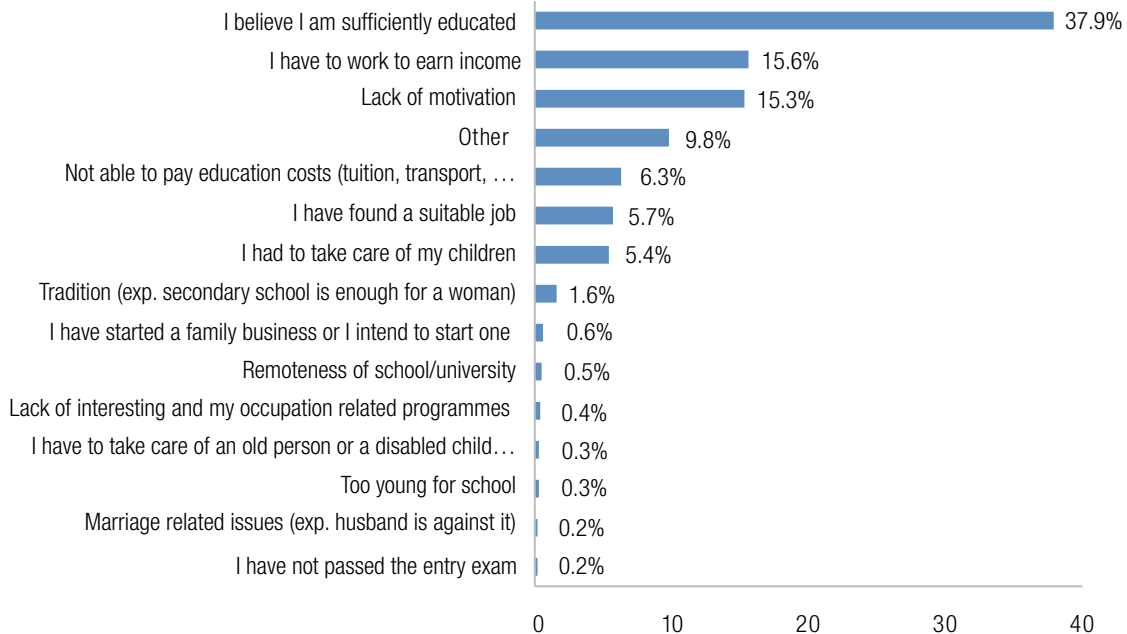
¹⁰⁴ Human Capital Development Survey, UNDP, 2011

¹⁰⁵ Montenegro in the 21st Century – in the Era of Competitiveness



One of the main institutional obstacles to human capital development is the lack of centres, within schools and universities and other institutions, specifically devoted to lifelong learning.

Chart 3.6: UNDP Survey 2011. Main reason for not attending school



The faculty diploma was formerly more valued, because the graduates were protected, both those who did work and those who did not. Getting rid of the slackers was not easy, as they “waved” their degrees, and, mainly, their tasks were performed by others. It also happened that people with degrees, once they closed their textbook, didn’t open it any more.

UNDP Qualitative Study 2011. In-depth interview, the Association of Pensioners of Montenegro

On-the-job training is very much underdeveloped as a labour activation measure in Montenegro. Active labour market policies are government programmes that intervene in the labour market to help the unemployed find jobs. Activation programmes are obligatory for relevant target groups and may include requirements for unemployed individuals to attend intensive interviews with employment counsellors, participate in the formulation of an individual action plan and attend training or job-creation programmes. Expansion of the on-the-job training component of active labour market measures in Montenegro can help the unemployed to fill the vacant positions and become better prepared to meet the labour market needs.

Montenegro will need to move beyond isolated reforms for different sub-sectors and develop a comprehensive life-long learning system, including the expansion of education provision at the pre-school and adult level. The first steps in this direction have been undertaken in the *Qualification Framework for Life-long Learning*, which will allow for more flexible learning paths and will make the recognition of degrees and prior learning easier. However, the situation in adult education gives reasons for concern as in 2009/2010 only 1.84% of employees completed any form of training and education, which presents a significant decrease in comparison to 8.46% in the previous year.¹⁰⁶

Initial and continuing lifelong learning opportunities should offer young people, as well as adults, attractive and challenging career opportunities, and should appeal equally to women and men, to people with high potential and to those who, for whatever reason, face the risk of exclusion from the labour market. To promote lifelong learning and make it available for all, the Government may implement a number of interventions:

- Strengthen the capacities of educational and statistical institutions of Montenegro to carry out systematic and detailed research on the labour force. This research is needed to understand the long-term perspectives of employment and

¹⁰⁶ Employment Agency of Montenegro, Employers Survey 2009/2010, p.25

new professions. Better labour market intelligence is vital to better inform individual learners, skills providers, employment services, employers and better, information-based public policy.

- Facilitate partnerships between social partners, enterprises, education and training providers, employment services, public authorities, research organisations and other relevant stakeholders, to ensure a better transfer of information on labour market needs and to provide a better match between those needs and the development of knowledge, skills and competences.
- Promote positive images of learning through several different channels to encourage people to understand and value learning, and to recognise learning they have already embarked on outside formal context. Different promotion strategies should be developed for different groups.
- Expand the number of institutions and programmes devoted to adult education. Encourage them to adopt more flexible modes of delivery, including training through distance learning.
- Provide quality assurance. Within the lifelong learning context, a greater variety of providers will offer more diverse opportunities, but also a greater opportunity for intentional or accidental deceit. Individuals and organisations need information about the quality and benefits of programmes available and the state authorities may collect, verify and publish this information.
- Introduce alternative ways of assessing learning outcomes including subject-based knowledge acquired through formal education as well as broader skills and competencies that can be attained through informal channels. Validating this learning experience may help individuals to better understand their own capabilities.¹⁰⁷
- Require businesses to provide regular on-the-job training and other learning opportunities to their employees. Adopt tax incentives to stimulate targeted investment in workers with low qualifications and skills and older workers.
- Design and implement a system of integrated guidance services (employment services and counselling services), as well as career management skills, for both young people and adults.
- Adopt a series of measures targeting students at risk of dropping out from school through a combination of both preventive and remedial measures. This may include work-based learning, apprenticeships, and effective guidance and counselling.
- Develop and implement targeted interventions promoting access of socially excluded groups to lifelong learning opportunities such as the low-skilled, long-term unemployed, RAE and older workers.
- Create incentives for individuals to attract people into training and to help individuals complete their learning for life and for work. Individuals should take over more responsibility for lifelong learning and develop 'career management' skills.
- Introduce incentives for individuals to invest into their own learning through individual learning accounts, tax measures and loans.

Strengthening Teachers' Capacity and Commitment

Teachers play a critical role in improving the quality of education and strengthening country's human capital. Teachers can make education relevant to 21st century learners. Montenegro should focus on attracting, preparing, and supporting good teachers and nurturing teacher leadership talent. Both the quality of teachers (and principals) and teacher practices would ultimately be the most important factor in promoting learning and raising performance of all students. Teachers should be able to promote discovery-based learning and put a greater emphasis on outcomes that are broader than basic memorising of facts and information.

Teacher training, recruitment, deployment and motivation should be improved through appropriate incentives and accountability mechanisms to improve learning and enhance equity. The faculties involved in professional development of teachers still do not provide it in an adequate way,¹⁰⁸ and do not keep current on the most recent research and effective practices

¹⁰⁷ See, for instance, European guidelines for validating non- formal and informal learning, Luxembourg: Luxembourg: Office for Official Publications of the European Communities, 2009

¹⁰⁸ Ministry of Education. Draft Strategy for Primary Education, November, 2011



in the field of teaching (e.g., psychological knowledge about development and learning, foreign languages and more advanced use of ICT). Psychological and pedagogical-didactic training is not at the necessary level. There is no rigorous process of selection of students who want to be teachers, either in psychological-pedagogical aspects or in the subject expertise aspect and motivation. Students do not have to do practical work in schools, so teachers come to the classrooms insufficiently trained and prepared. At the same time, the Department for Teacher Training of the Faculty in Nikšić does not train its students as it is envisaged by the reform of education. Later on, when they start working in schools, they are not monitored to a sufficient level, in their work and in their practice, and traditionally low salaries in this field contribute to lower motivation for work and life-long learning, and to non-compliance with high ethical standards in this area. All of this has an indirect but strong impact on the formation of human capital.

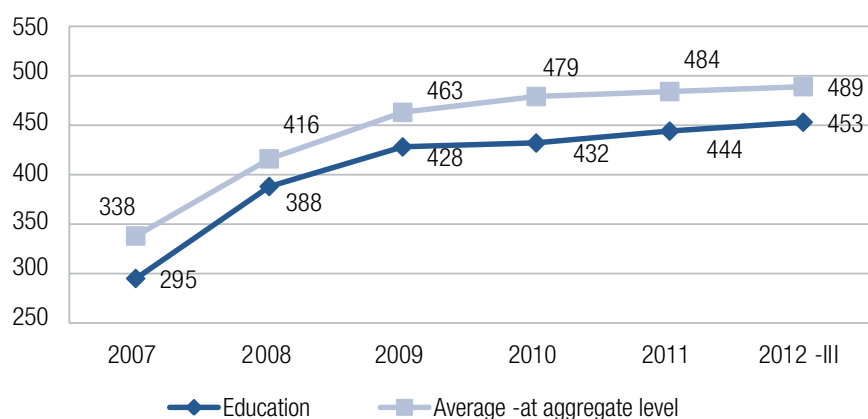
Regardless of a high share of gross salaries in the education budget, educators' salaries still remain below the average in the country despite their significant increases.¹⁰⁹ The chart 3.7 below shows that salaries in the education sector have been consistently below the average salary by approximately €40-45 from 2007 till 2012.

A teacher's confession

I started working 14 years ago and it was all different than it is today. In those days the children had so much respect for teachers, or they were afraid, I do not know. Today, only if you work hard can you accomplish any results. I do not allow pupils to behave badly in the class. Classes are too large: 40 students in the first grade, 32-33 in the fourth. There is no selection between good and poor students. Some children have no capacity to go on. Current laws do not benefit the children and equalise our and EU standards, which can't be applied in our culture. I was telling my colleagues that we should even enjoy a special status - a student hit one of my colleagues! Now the question is: who is responsible, the student or the family he comes from. More and more children come to school with problems. There are more and more children whose parents are divorced; children are raised by their grandparents, children who are sick. I do not know whether the parents neglect their children, but parents have to take care of their children. Compared to parents, the children are excellent.

UNDP Qualitative Study 2011. Teachers, focus group discussion, Podgorica

Chart 3.7: Average earnings of teachers in comparison with average salaries, net, in €



Source: MONSTAT

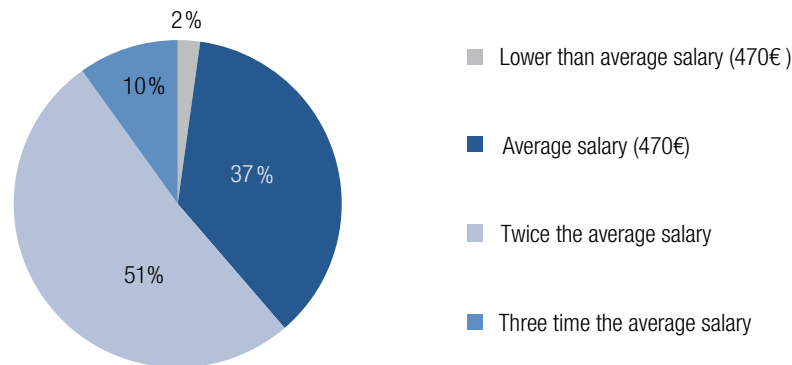
Institutions must be woken up from their sleep. And there must be a special entrance exam so that we can find out who could be a teacher and study at the pedagogical faculties.

UNDP Qualitative Study 2011. Secondary school teachers, focus group discussion

109 World Bank. 2011. Montenegro. After the Crisis: Towards a Smaller and More Efficient Government Public Expenditure and Institutional Review, World Bank Report, 2011, p.70

The overwhelming majority of respondents to the UNDP Survey 2011 believe that educators' salaries should be increased. Every second respondent believes that the monthly salary for secondary school teachers should be twice the average salary, while 36.5% of respondents believe that it should be at the level of the average salary (see Chart 3.8 below)

Chart 3.8: UNDP Survey 2011. What should the monthly salary for secondary school teachers be?



Source: UNDP Quantitative research, 2011

Children previously had much more respect for teachers, but the situation is different today. There are more and more children whose parents are divorced, who are raised by their grandparents, as well as children who have lots of family problems. In many cases, children are brought up by the street and for most of them teachers are not their role models, but rather those people from the street who earned some easy money.

UNDP qualitative study 2011. Focus groups of teachers and professors who teach at secondary schools of economics, trade, technical and mechanical engineering and the comprehensive school.

In addition to increasing teachers' salaries, it is necessary to introduce a number of additional strategies aimed at increasing educators' motivation, skills and knowledge. The teacher training institutions, for instance, have to become innovative in attracting high-quality and representative applicants and in constantly improving the design and delivery of initial teacher educational programmes. Teacher preparation programmes require continual innovation to develop a new generation of teachers who have the ability to promote 'complex learning' in students. 21st-century teaching skill sets require teaching professionals to develop capacity for reflective practice, critical opinion, knowledge and media literacy, and professional engagement in learning communities. The implementation of an elective course on media literacy in Montenegro, for instance, demonstrated its positive impact on students who have decided to take it and has put different types of knowledge in a new context. However, the situation varies from school to school and elective subjects have not, generally speaking, always produced desired results. Finland, for instance, has raised the standards for new teachers that have helped the educational system to improve the status of teachers, receive more applicants for teacher training places at universities, to balance the educational practice in all schools, and eventually increase the country's human capital. A proper internal evaluation can be introduced, combined with financial incentives for teachers' performance. It is beneficial to establish professional associations of teachers to facilitate knowledge exchange and raise standards for the teaching profession.¹¹⁰ It may be advisable to introduce teacher induction programmes that can help new teachers build upon their basic skills and provide diverse opportunities for more relevant, powerful and teacher-owned professional development. Induction activities and support may extend beyond the first year of teaching and can last for an extended period of time.

In-service training opportunities should be expanded as well, both for skill development and to encourage teachers to stay in their profession. Teachers may even be required to pursue continuing professional development as a requirement for maintaining their license.

¹¹⁰ Indeed, that initiative is to be taken by teachers and it will, once taken, be the sign of a restoration of human capital in this field.



Promoting Information and Communication Technologies

Information and Communication Technologies (ICT) can provide the necessary tools for improving the teaching and learning process, and help in preparing human capital for realities of the 21st century. ICT can customise the learning process and adapt it to the particular needs of the student as well as prepare them to live and work in a society where technology-related competencies are becoming increasingly indispensable.

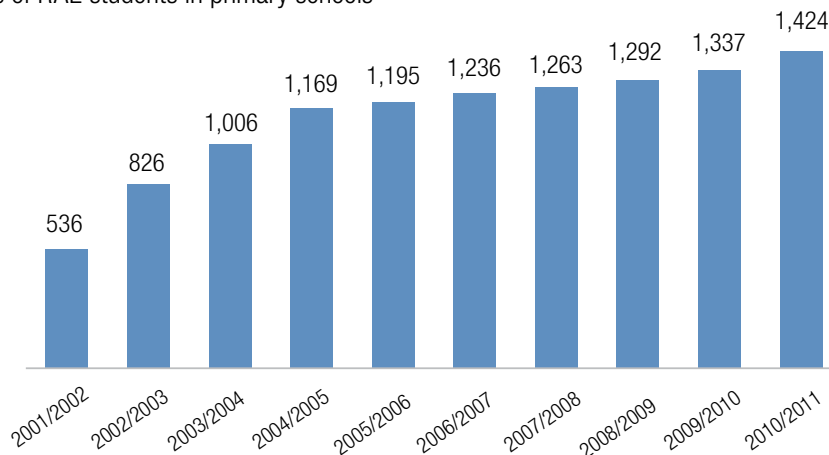
Montenegro has to continue improving access and skills of students and teachers in ICT. According to a survey conducted in 45 secondary schools, the best results have been accomplished in 8 comprehensive schools (gymnasiums) where 20% (76 out of 382) teachers and 40.5% of students (2,450 out of 6,051) have been trained in information and communication technologies, with a computer:students ratio of 1:58. All 8 comprehensive schools have computer classrooms with 105 computers. More than half of comprehensive schools have an Internet connection. Only 2 comprehensive schools have school web pages (25%).¹¹¹ There is still a lot that needs be done in the area of ICT. According to a study produced by the Montenegrin Academy of Sciences and Arts, “qualitative results of the integration of new technologies in the educational process at all levels, including university, are unsatisfactory.”¹¹²

It is important not only to provide access and teach how to use ICT, but ICT can also support pedagogical innovations, facilitate distance education and improve education quality through different modes of learning, such as presentation, demonstration, drill and practice, interaction and collaboration that are more interactive and participatory than traditional modes.

Inclusion of Socially Excluded Groups in Learning

All Montenegrin children and adults deserve equal access to education and learning opportunities. Some children, because of family-related, socio-economic or geographic circumstances, language issues, ethnicity, disability and a host of other factors, start school at a disadvantage. The fairness principle demands that they receive extra support so that they quickly become ready to learn.

Chart 3.9: Numbers of RAE students in primary schools



Source: Strategy for Development of Primary Education and Action Plan(2011-2017)-Proposal, p. 16

Modern economies cannot afford a significant, uneducated, untrained and excluded minority. Exclusion reduces the capacity of individuals to contribute to and benefit from the society and the economy. The participation of such groups in lifelong opportunities should be facilitated and encouraged through financial and other means.

111 Government of the Republic of Montenegro, Ministry of Education and Science, Republic Development Secretariat: Strategy of Introduction of ICT in the Educational System of Montenegro (up to the University level), Podgorica 2003.

112 Montenegro in the 21st Century – In the Era of Competitiveness, CANU, 2010, p. 257.

In the last decade the number of RAE children covered by primary education has been increasing (Chart 3.9).¹¹³ In the school year 2011/2012, there were 1,582 RAE students in primary schools in Montenegro. The Strategy for improving the position of the RAE population in Montenegro envisages an annual growth in the enrolment of RAE children at pre-school institutions of 10%¹¹⁴ and their subsequent enrolment at primary schools (Table 3.4). This level of education is particularly important for the inclusion of RAE children because it has a significant influence on achievements in primary school. However, only 13.81% of RAE children are enrolled at pre-school institutions, which is half the average enrolment rates at the national level (27%). Mainstreaming of RAE students is not always truly pursued and they often remain educated in segregated settings.¹¹⁵

Table 3.4: Coverage of RAE children by age groups: from 1 to 3, from 3 to 5 and from 5 to the beginning of primary school

Age	Total number of children in public preschool institutions			Total number of children in Montenegro			Total coverage (%)		
	Boys	Girls	Total	Boys	Girls	Total	Boys	Girls	Total
From 1 to 3	5	6	11	316	283	599	1.58%	2.12%	1.84%
From 3 to 5	55	61	116	310	310	620	17.74%	19.68%	18.71%
From 5 to the beginning of primary school	61	64	125	327	279	606	18.65%	22.94%	20.63%
Total	121	131	252	935	872	1.825	13.88%	15.02%	13.81%

Source: Ministry of Education and Science, *Strategy of Early and Pre-school Education (2010–2015)*

It is important to continue implementing strategies and programmes aimed at integrating the RAE students into mainstream education with additional support. The Government should provide additional incentives to train RAE teachers and educational assistants.

Children and youth with special educational needs should be educated in three ways: in regular schools with all children (first choice), in special classes in regular schools (with participation in extra-curriculum activities together with their peers or in some subjects with them) and in special institutions for students with development disorders (when such education is in the best interest of the child). Early and pre-school education is particularly important when it comes to children with special needs and the benefits are twofold – for the children with special needs but also for other children that get used to recognising, respecting and accepting differences among their peers, which has a direct impact on the system of values and development of the society of equal opportunities. Early pre-school education also makes the integration and success of these children at higher educational levels easier and more certain. The most prominent challenges in special education are high demand for programmes that results in improvement of the teacher/student ratio and significant regional differences in programmes availability.

In the system of regular schooling, some teachers who work with children with disabilities are sceptical of their capacities to achieve results.¹¹⁶ This is a result of the general cultural context and a lack of adequate professional education and training that would prepare teachers for work in special education.¹¹⁷

As students with disabilities and development disorders have diverse strengths and weaknesses, a range of programmes and support should be provided that would meet individual student's strengths and needs. Teachers and teaching assistants

113 Data of the Ministry of Education and Sports

114 The Strategy of Early and Pre-School Education (2010–2015) envisages activities for larger coverage of children of this age. Source: Draft Strategy for Primary Education, 2011-2017, Podgorica, 2011.

115 In the Vrela Ribnička settlement in Podgorica, there is a unit attended only by RAE children (domicile population and displaced persons from Kosovo), therefore there is hardly any joint attendance of school and pre-school groups with non-RAE peers.

116 This is about the number of teachers in this type of classes because, as a rule, Montenegrin schools leave everything to one teacher who then decides whether to work with one or all the pupils, where one side is inevitably losing. That could change if there were two teachers in this type of class.

117 The 2012 Montenegro education reform evaluation has demonstrated that inclusive education legislation is continuously being aligned with the European criteria governing this area, but that there are some deficiencies when it comes to implementation (cooperation at the inter-sectoral level should be much stronger, with clear roles, tasks, coordination procedures and information exchange, as well as strengthening of initial teacher training in this area).



should be trained on how to educate children with special needs. Inclusive education should be incorporated into all core teacher training curricula and in service training to infuse the values and develop educators' skills in inclusive education.

Special attention should be paid and special investments should be made in the human capital of children from poor families, i.e. children who are beneficiaries of rights resulting from social and child welfare (family allowance, child allowance and other forms of social protection), and there are more than 30,000 of them¹¹⁸, with the aim of pulling them out of poverty and preventing the phenomenon of multigenerational poverty. A systemic and multidisciplinary approach should also include children from families at risk (dysfunctional families), children without parental care, children in social child protection institutions, but also children from foster families, child victims of family and peer violence, juvenile delinquents, etc.

118 Social Welfare System in Montenegro, UNDP, 2011.

Chapter 4

The Health Sector and Human Capital of Montenegro

Besides education, the healthcare system is one of the priority sectors in government policies aimed towards human capital development. The population must be healthy to effectively utilise its skills and knowledge. The possibility to lead a long and healthy life is a basic human need and is fundamental to increasing life expectancy and productivity in any country. Most countries try to continuously improve the provision of public health, education and social welfare services to enhance the quality of life of their citizens and increase their human capital.

A falling birth rate and rising mortality rate, a migrant outflow of young people, ageing population, military conflicts in the former Yugoslavia, privatisation and economic reforms, and the erosion of social values put significant pressures on the healthcare system of Montenegro in the 1990s. To address these multiple challenges, the healthcare system was extensively reformed. How did the legacies of the past affect the health sector capacities to meet the challenges of HC development in the 21st century? Did the healthcare sector reforms improve the human capital outcomes? What specific healthcare reforms are needed to increase the country's HC? The following sections attempt to answer these questions.

It is only when one is healthy, that he lacks everything.

Source: UNDP Qualitative Study 2011 Housewives and long-term unemployed focus group

Legacies of the Past and Their Impact on the Healthcare System in Montenegro

Prior to transition, the country's healthcare system, like the education system, was based on public financing, ownership and delivery of care. Access to healthcare was a constitutional entitlement of all citizens and benefits were comprehensive, while access to care was free for all Montenegrins with limited private contributions such as pharmaceuticals and supplies. All citizens knew that they could always access relatively high quality healthcare services and were confident that they would get proper treatment and services.

The healthcare system of Yugoslavia was not managed centrally like any typical Soviet healthcare system, although there was a federal health ministry. It was decentralised, owned and operated by local municipalities, to promote equity and efficiency through local self-management and financing. Although this model did not achieve all the anticipated outcomes, it made a significant positive impact on the country's human capital after the Second World War. As Table 4.1 below shows, the life expectancy of the average Montenegrin male increased from 58 in 1952-54 to 71 years in 2008. The average life expectancy of Montenegrin women significantly increased by 17 years, from 60 in 1952-54 to more than 76 in 2008. At the same time the mortality rate radically decreased due to mass immunisation, screening for diseases such as tuberculosis, education and awareness building, and the improvement of the living conditions of the rural population. The human capital of Montenegro suffered significant stress in the 1990s which was reflected in the decline of life expectancy and the increase in mortality rates (for more on this see the "Impact of Reforms on Human Capital" section).

Healthcare benefits were very generous and included a range of non-essential services. Citizens often overused the healthcare system's 'generosity', as it was free of charge. Some elements of the system's design had a particularly nega-



tive impact on the country's human capital. For example, employees had excessive and often unjustified entitlements for sick leave while doctors were liberal in giving sick notes that resulted in a significant number of days of workdays lost. These practices also had a negative impact on the work ethic.

Table 4.1: Life expectancy at birth (by gender) in Montenegro, from 1952-1954 to 2008

Period	Gender		Average
	Male	Female	
1952-1954	58.35	59.86	59.11
1960-1962	61.97	65.38	63.68
1970-1972	68.11	73.05	70.58
1980-1982	71.94	76.37	74.16
1990-1992	71.51	78.61	75.06
2002-2004	71.79	76.66	74.23
2004	71.00	75.20	73.10
2005	70.30	74.90	72.60
2006	70.60	74.80	72.70
2007	71.20	76.10	73.65
2008	71.20	76.10	73.65

Source: Statistical Office of Montenegro (MONSTAT) – Demographic trends in Montenegro, table I-9 (p.36), for 2004-2008 data - MONSTAT, (Women and men in Montenegro, 2010)

Montenegrin writer Nikola Lopicic's famous story is about a small family who could not afford healthcare. The wife fell ill, and the only way to save her was to amputate her leg. For the treatment, the husband had to sell half of a small piece of land, and leave the whole family to die of hunger. After great inner conflicts, the wife was left to die.

Nikola Lopicic wrote between the wars and lost his life in the Second World War. Looking at that story, showing ordinary people living in Montenegro, the free healthcare system was one of the greatest achievements of the socialist period. No one should sell their property to pay for treatment, and through its healthcare system Montenegro experienced protection, security and belief.

That experience was the same for all. From medical documents of the past, we can see that men were much more medically treated than women (first hospital in Cetinje). Establishing equality of the sexes, the socialist period established equal access to healthcare provision, reducing the mortality rate among women. Nowadays, in a market economy, it is of great importance not to lose these values.

Source: The original story in: Lopičić, Nikola, *Stories and other writings (Pripovijetke i drugi spisi)*, Stručna knjiga, Belgrade, Podgorica, 2002; Nelević, Natasha, *History Textbook - Women in Montenegro from 1790 to 1915*, NOVA - Feminist Culture Center, Podgorica, 2011.

At the system level through the 1990s, healthcare provision was steadily declining in terms of effectiveness, efficiency and equity that limited its positive contribution to human capital. Prior to the 1990s residents of Montenegro could easily access prominent doctors or clinics in Belgrade, Zagreb, and Ljubljana which became almost impossible in the 1990s due to conflicts in the region and sanctions. Patients often could not have a doctor of their choice, waited in long queues for care, and often opted to pay bribes to receive faster and better quality service. Doctors and other medical staff had very limited economic incentives to improve their performance as their salaries were often lower than an average worker's salary and they could not officially earn additional income. It became common practice for doctors to seek/expect bribes and other forms of payments from patients that sometimes constituted a major part of some doctors' incomes.

A UNDP survey on the integrity of the health system in Montenegro also included informal payments.¹¹⁹ The survey reveals that 49.4% of patients give a gift or a bribe to the health workers in healthcare institutions in which they receive treatment, of whom 17% do so prior to being given healthcare. As for the patients who made informal payments, 63% confirmed that they did it out of gratitude and in the form of a gift, while 24.5% thought it was expected from them and that they would otherwise receive worse treatment; 10.8% were given a suggestion/hint to do that, while 0.5% were demanded to do that directly by the medical staff. On the other hand, health workers state that informal payments are made predominantly as an expression of gratitude that the patients feel regarding the service they have been provided. This phenomenon is explained by the mindset of people in Montenegro who traditionally feel the need to extend gratitude for a service that has been provided in any life sphere. However, admittedly there is a practice that involves “some doctors expecting a gift in an envelope”, to be more precise “it is obvious from behaviour of the workers that they are expecting a gift”.¹²⁰

Healthcare in Montenegro faced multiple challenges in the period of transition. In addition to economic and social hardships, ethnic conflicts, increased unemployment and other factors associated with the transitional period, the healthcare system had to address such issues common to all European States as an ageing population that requires more extensive and expensive healthcare supports and services. Although a share of the population aged 65 or older did not exceed the share of the population aged under 15 as had already happened in some European countries, the increasing numbers of the elderly require more and better healthcare services and social supports.

Healthcare System Reforms

Montenegro inherited an extensive and inefficient healthcare system with outdated technology and inefficient deployment of management, staff and resources. High healthcare budget costs, the introduction of a market economy, eroding equity, quality and accessibility, warranted system reforms. What reforms were implemented? Have they supported HC development in Montenegro?

As the healthcare system was of great importance to human capital development in the former Yugoslavia, many elements of the system such as universal access were left intact. The local authorities, however, did not have sufficient capacity to manage the health sector in the period of economic hardships of the transition period and often did not have appropriate policies, adequate budgets and management structures to provide quality, accessible and free healthcare. To address these systemic gaps and ensure availability, accessibility and quality of healthcare provision, a national compulsory health insurance scheme with central coordination, financed through a payroll tax was established.

The Montenegrin health insurance model uses a Bismarck model where employer and employee pay a 50:50 contribution, the state pension fund covers the premiums of pensioners, and the budget covers the health insurance costs of the unemployed. There is a single public health insurance fund (HIF), largely financed by a social health insurance tax on labour paid by employees and employers. According to HIF estimates, the health insurance coverage of the population is universal. The results of a UNDP household survey conducted in 2008 indicated that more than 96% of respondents had insurance coverage directly or through a family member.¹²¹

The HIF is in charge of overseeing and implementing both compulsory and any voluntary health insurance schemes. Like in many other jurisdictions using this model, the HIF collects and pools insurance contributions and has contractual relations with public, and sometimes private, providers to deliver health services. The introduction of this funding model helped to increase budget revenues available to health, to improve central coordination and planning and advance consistency in the quality and availability of services across the country.

The HIF pays providers according to line items, such as wages and salaries, utilities, medicines and other supplies, on the basis of an annual contract negotiated between the HIF and each provider. Because the budget in one year is largely

119 Definition: “... any giving to an individual or institutional service provider, in-kind or cash, outside official channels of payment or purchase, for the cost should have been covered by the health system. It includes payments to doctors made in “an envelope” and any “donation” to the hospitals, as well as the value of medical aids purchased by the patient and the value of pharmaceuticals purchased in a private pharmacy, which should have been covered by health insurance.”

120 Source: Integrity Assessment of the Health System in Montenegro, 2011, UNDP, WHO and Ministry of Health

121 Source: The UNDP Survey that accompanied preparation of the National Human Development Report 2009: “Montenegro: a Society for All”



determined by the costs of inputs in the previous year, hospital management has an incentive to utilise the entire budget each year rather than to contain expenditures. Since the budget is related to 'historical patterns', and not to the number and the severity of the cases treated, there is no incentive to treat difficult cases, but rather an incentive to refer these cases to higher levels of care. This means that primary care providers may not always act as effective 'gatekeepers' to higher levels of care for various reasons. In recent years, the funding system became more output-based which may help to improve the system's effectiveness and efficiency in the long run.

Total HIF expenditure in 2009 amounted to €189.13m and was €30.63m or 19.33% higher than planned. As with most health systems, in Montenegro hospitals account for the largest share of health expenditures. In 2009, 48% of the HIF's expenditures were allocated to hospitals (secondary and tertiary healthcare level). In comparison with 2008 these expenditures increased by 17% (see Tables 4.2 and 4.3 below for more information).

Table 4.2: Healthcare expenditures¹²²

	2008	2009	% change	Share of total HIF expenditures in 2009 (%)
Primary healthcare level	58,042,107.31	63,248,263.16	9.0	33.44
Secondary healthcare level	62,612,929.39	73,229,276.78	17.0	38.72
Tertiary healthcare level	15,371,355.81	18,009,561.30	17.2	9.52
Other	14,952,114.64	13,758,197.63	-8.0	7.27
Total – healthcare expenditures	150,978,507.15	168,245,298.87	11.4	88.96

Source: Report on the activities of the Health Insurance Fund of Montenegro for 2009, p.24

Table 4.3: Share of HIF's expenditure in GDP from 2002 to 2009

Year	GDP* (in € millions)	Expenditure of the HIF - Health Insurance Fund** (in € millions)	Share of HIF's expenditure in GDP (%)
2002	1,360.35	92.08	6.77
2003	1,510.13	96.57	6.39
2004	1,669.78	95.58	5.72
2005	1,814.99	108.89	6.00
2006	2,149.00	117.94	5.49
2007	2,680.47	138.52	5.17
2008	3,085.62	172.48	5.59
2009	2,980.97	189.12	6.34

*Source: MONSTAT, Department of macroeconomic statistics and national accounts

**Source: Report on activities of the Health Insurance Fund of Montenegro for 2009

In addition to improving healthcare management and funding mechanisms, the list of free treatment and medication was reduced, which helped to contain the escalating costs of healthcare. A fee-for-service model was introduced and covered some treatments that previously had been provided free of charge, with the exception of some vulnerable groups such as schoolchildren. The system became much more restrictive in covering the costs of treatment abroad. Prophylactic and healthcare coverage was reduced, especially for those who are not covered by health insurance. Private healthcare institutions emerged that expanded the healthcare options available and reduced pressure on the public system. The public healthcare system, however, remained free for all, which ensured some level of equity and ownership and feeling of security of citizens.

Primary care reform focused on developing the institution of general practitioners (family medicine) to replace the former polyclinic-based primary care delivery model. Family doctors that know the context of the family and the community were introduced to provide comprehensive healthcare for individuals and families across all ages and to focus on disease

¹²² Data for 2010 and 2011 is not yet available.

prevention and health promotion. Patients could choose to register with a particular general practitioner, gynaecologist or paediatrician. “My physicians” have to follow their patients and refer them to additional special services as needed. General practitioners became gatekeepers for the health system, and Public Health Centres (PHC) which are the primary health institutions in local communities were reorganised to support the work of chosen doctor teams (i.e. doctor-and-nurse teams).

PHC financing was changed to a combination of capitation (based on the number of registered patients per chosen doctor) and fee-for-service (for the provision of priority services), which should increase incentives for improved effectiveness and efficiency. These reforms were supported by the development of the integrated information system at the level of the PHC. Comprehensive, systematic and specific human resource education was undertaken as well as general education for ‘chosen physicians’ but also education in the ICT literacy of healthcare staff so that the expenditures could be better tracked and focus on patients maintained.

The hospital reform strategy envisages a substantial restructuring by moving the healthcare system away from the current network of PHCs, hospitals, and clinical centres to eight vertically integrated healthcare centres. These centres would include both primary and secondary care and, over the medium- to long-term horizon, transform into three regional reference centres in northern, central and southern Montenegro.

Impact of Reforms on Human Capital

Human capital in Montenegro suffered significant stress in the 1990s that was reflected in the decline of life expectancy and increase in mortality rates due to population ageing. Since 1991, for example, the life expectancy of the average Montenegrin male fell by 0.3 years from 71.5 in 1991 to 71.2 years in 2008. Women suffered more during the same period which resulted in reducing the average life expectancy by 2.5 years from 78.6 in 1991 to 76.1 years in 2008.¹²³ This is lower than the life expectancy in the EU in 2008, which was 76.4 years for males and 82.4 for females¹²⁴. At the same time the mortality rate increased from 6.8 in 1991 to 9.3 people per thousand in 2009 while the birth rate and fertility rate decreased significantly

Mortality – According to the most recent data available, provided by the Statistics Office MONSTAT (for 2010 there is no reliable data on mortality rates given the shift in responsibilities for monitoring the mortality data, thus the last mortality data quoted here refers to 2009), the general mortality rate in 2009 was 9.28 people per thousand. The general mortality rate is not a relevant health indicator since it does not indicate the structure of deaths, but the health status analyses always start with this indicator. It has substantially increased as of late due to the ageing population. The greatest share of deaths occur among senior citizens: aged 75-84 – 34.94%, followed by the age groups 65-74 – 25.43%, while the 85+ age group recorded 12.79%. In Montenegro, close to three-quarters of all deaths were among people aged 65+. The share of infant deaths is 0.84%, while the share of deaths among children aged 1-14 in the total mortality rate is 0.31%.

The structure of deaths in different age groups has changed substantially with an increase of deaths among the elderly, and a decrease among children and the young. The mortality rate structure according to the cause of death (groups of disease according to the ICD-10) show that in 2009 the leading diseases in this respect were diseases of the blood – 54.86%, followed by neoplasm – 15.20%, then diseases of the respiratory system and other diseases, with a smaller share. There is a slight declining trend in deaths caused by the leading diseases, which is attributable to changed behaviour patterns, a greater share of preventive activities in the healthcare system (brought about by the system restructuring), improved early detection and timely treatment. Over the upcoming period, once the reform is fully followed through, due to organisational changes it is expected to see a decline in the share of deaths caused by the above diseases in the years before reaching life expectancy. Diseases of the blood and cancers are preventable diseases, and timely and targeted prevention measures are expected to continue to push down the value of potentially lost years on this account. Improved death registration overall and better information as regards the structure of deaths are some of the major tasks in monitoring mortality rates.

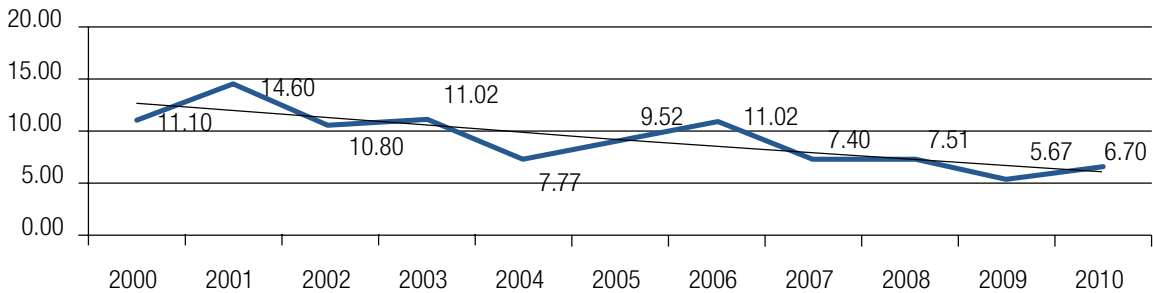
123 There are still gaps in statistical information available. According to the Ministry of Health estimates, 2000-2200 people died of cancer, but according to MONSTAT the number is significantly lower – 500.

124 Note: there is a significant difference between Eurostat and MONSTAT data for life expectancy in Montenegro in 2008



Infant deaths is a highly sensitive indicator of healthcare system soundness, the social and economic features of the community, individual features of a pregnant woman, but also of care for women and newborns. With certain oscillations, Montenegro shows a marked declining trend in infant mortality rates (Chart 4.1).

Chart 4.1: Infant mortality rates in Montenegro 2000-2010 (MONSTAT)

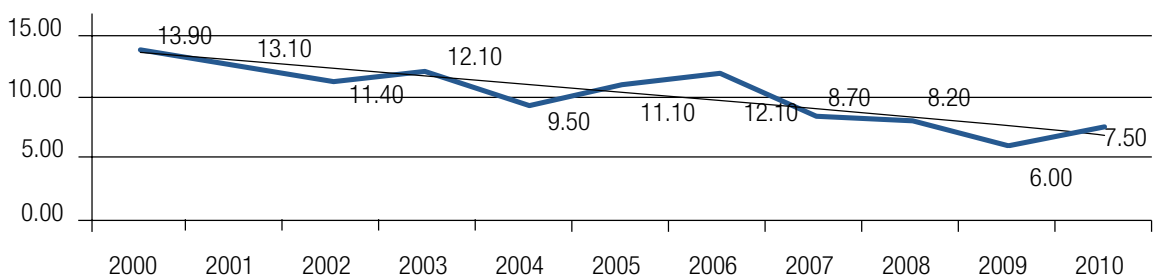


The mortality rate of children under 5 years of age is a significant indicator of both the health of children, the health status of the overall population and the level of development. UNICEF put it among the basic global child health indicators, ranking countries according to its values. The mortality rate of children under 5 years of age has a declining trend as compared to the previous decade (Chart 4.2). The mortality rate among children aged 1-4 also shows a declining trend and was lowest in 2009.

Montenegro is showing progress in reduced child mortality rates and improvement of children's health. The planned Millennium Development Goal of reducing the mortality rate of children under 5 years of age down to 8% by 2015 has been achieved, but it is paramount to continue working towards its further improvement with a view of attaining the values achieved by well-developed European countries.

Cross-sector preventive efforts will reduce child injuries, as a frequent cause of death within this age group, while the healthcare system reform will continue to regard care of vulnerable groups as a matter of priority. In child healthcare, health promotion and disease prevention efforts are expected to improve, as guaranteed by the service package and the Health Care Law.

Chart 4.2: Mortality of Children under 5 years of age (MONSTAT)



Post-independence Montenegro has managed to steadily improve its health indicators over the last decade. The infant mortality rate, which is one of indicators of the effectiveness of the healthcare system, continued to fall from 14.6 per 1000 live births in 2001 to 6.7 in 2010 (see Table 4.4 below).

Stresses and high unemployment rates in the 1990s, increased labour market opportunities for women, and general European trends influenced many couples' decisions to postpone having children until their living conditions improve. The human capital of Montenegro benefitted from a high fertility rate, or the number of children per mother, until the mid-1960s when the total fertility rate was constant at over 3 children per woman. The period of the 1990s and early 2000s, however, is characterised by declining average annual birth rates. From 2000 to 2005 the number of live births decreased by 20%, and the total fertility rate decreased from 1.85 to 1.6. The trend of slower rates of population growth

is most likely to continue for the next two decades increasing life expectancy. Low fertility rates mean that the Montenegrin population is getting older and its demographic structure very much resembles other European countries. The pressure on the healthcare system will grow, as it will have to deliver more services for the ageing population.

A testimony of a doctor

Bojana is 60 years old, a specialist in microbiology. She started as a doctor, then worked as a specialist, director of the health centre and now works in a private clinic. She says that until the 1990s we could say that it had been a healthcare system designed *FOR PATIENTS*.

Between the 1990s and 2000s, there were struggles to cope with a lot of problems (war in the region, the transition, economic sanctions by the international community...). Doctors tried their best to preserve the patients, the system, the standing of the profession, themselves. "We lost what we had, and now we should learn from the EU", she adds.

The doctor is now straddling the public and private sectors, both in health care and in prescribing drugs. The private sector is not well established and incorporated into the public health system. It is more a substitute system – the state allowed it to be wide filed. There is an opinion that nearly 80% of doctors work both in the public and private sectors, without proper protection of either. Now, they work only for themselves, not for quality like before the 1990s, or to struggle against the bad conditions like in the 2000s, but only to earn a living.

"The main losers today are the patients, maybe most of all the poor ones. And, because of the hard transition, I would say that the widespread use of drugs now is not a necessity, but the way of solving increased social problems. And it was our sad story", she concluded.

Table 4.4: Natural Population Change, 1951-2010

Year	Natural population changes			Birth rates, death rates and total fertility rates			
	Live births	Deaths	Infant deaths	Birth Rate (‰)	Mortality rate (‰)	Infants Mortality rate (‰)	Total fertility rate (units??)
1951	12,898	4,416	1,092	31.7	10.9	84.7	..
1961	12,994	3,335	798	27.4	7.0	61.4	3.50
1971	10,866	3,278	378	20.5	6.2	27.8	2.70
1981	10,441	3,556	227	17.9	6.1	21.7	2.10
1991	9,606	3,970	107	16.5	6.8	11.1	1.89
2000	9,184	5,412	102	15.0	8.8	11.1	1.85
2001	8,839	5,431	129	14.4	8.8	14.6	1.79
2002	8,499	5,513	92	13.8	8.9	10.8	1.89
2003	8,344	5,704	92	13.5	9.2	11.0	1.83
2004	7,849	5,707	61	12.6	9.2	7.8	1.71
2005	7,352	5,839	70	11.8	9.4	9.5	1.60
2006	7,531	5,968	83	12.1	9.6	11.0	1.64
2007	7,834	5,979	58	12.5	9.6	7.4	1.69
2008	8,258	5,708	62	13.1	9.1	7.5	1.80
2009	8,642	5,862	49	13.7	9.3	5.7	1.85
2010	7,418	5,633	50	12.0	9.1	6.7	1.66

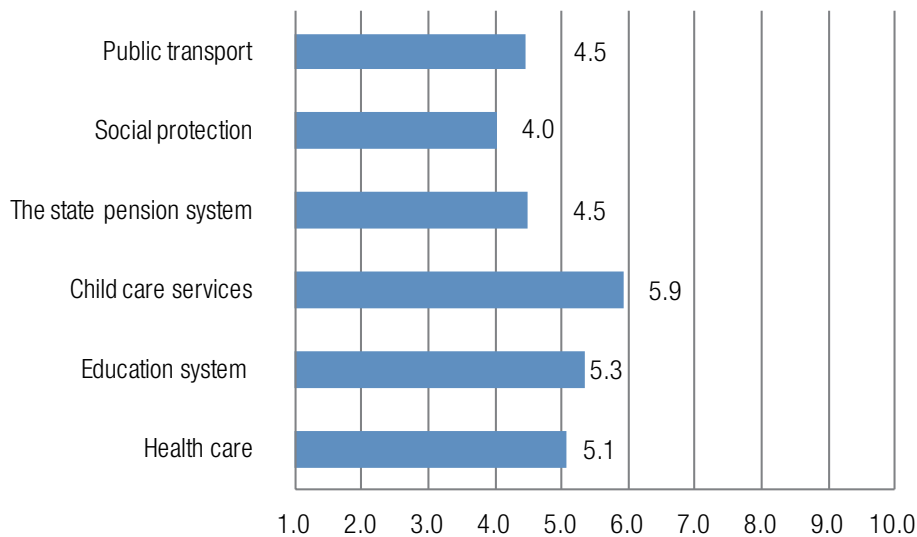
Source: Statistical Office of Montenegro (MONSTAT) – Statistical yearbook 2011

The implemented reforms made a positive impact on healthcare effectiveness and helped to move towards to a system that should meet the needs of human capital development and utilisation in the 21st century. In the survey conducted by the UNDP in cooperation with the WHO and the Ministry of Health in 2011, 40.6% of respondents evaluated the healthcare



reforms as successful and 9% as very successful, while 39.3% consider the reform partially successful. Around 58% believed that the quality of health services had improved.¹²⁵ Every fifth respondent of the survey rated the quality of the health system in Montenegro as neither good nor bad, followed by 10% of respondents who rated the quality of health care as 3 and another 10% who rate it as 4 (see Chart 4.3 below)

Chart 4.3: Satisfaction with healthcare and other public services.
 Percentage distribution of answers by score (1 = very poor quality, 10 = very good quality)



Source: Integrity assessment of the health care system in Montenegro, 2011, UNDP, WHO and Ministry of Health

Satisfaction with healthcare – personal experiences

Positive remarks:

- I'm satisfied with the service provided by healthcare professionals.
- The government takes care of women and children.
- I always manage to get things done concerning my health successfully. I am satisfied.
- I was satisfied, it is not exceptional, there are a lot of faults, it is not the best, but I am content.
- My mother had her hip replaced by surgical procedure and I can emphasise that we are satisfied [with the service].

Negative remarks:

- It is worse, because this set-up with chosen doctors is not good.
- Perhaps there are not enough health workers, so they have too much work to do.
- When you go to the hospital and see the crowds, you need to have understanding for those people. Finances are available for sure, just take a look at the kinds of nonsense that get funded.
- There are no proper conditions for mothers and children. I was there for two days and it is not allowed for parents to sleep over, even if there are beds available.
- They don't have more than 5 minutes to devote to you. I wish my money for health insurance were not taken so that I could regulate it all by myself.
- It is not well organised as it often happens that you can't wait for your turn so you have to go to private practitioners.
- Most medications that are of good quality have to be paid for.

Source: UNDP Qualitative Study 2011 - Focus groups discussions

125 Source: Integrity Assessment of the Health System in Montenegro, 2011, UNDP, WHO and Ministry of Health

The healthcare system, however, does not in an optimal manner meet the needs of human capital development. The participants in a UNDP qualitative study in 2011 were generally satisfied with health services, but indicated that because of long waiting times in public health institutions, they often turn to private healthcare providers. They believe that the system does not provide enough care for the health of the nation (children, elderly, pregnant women, workers) and mentioned in particular hygiene conditions of the hospitals, the abolition of child supplement, an excessive number of children in kindergartens, etc. The following is an overview of the most relevant challenges that may prevent the healthcare system optimally supporting the needs of HC development:

Sustainability in healthcare funding and system effectiveness and efficiency. Montenegro spends more on public health than other countries with similar income levels. In 2008, Montenegro's public-sector health expenditure was 14.7% of total public spending, above average when compared to EU countries.

The fundamental reform goal is to bring the healthcare system to its optimal functionality to provide the greatest achievable positive impact on the population's health status with the resources available. Equality and material security of citizens in the healthcare system is ensured through the definition of the basic service packages at all levels, guaranteeing a range of measures and services available to the service users. Given that the service package has been defined for the first time in Montenegro, it is not restrictive and generally does not narrow down the extent of rights to healthcare. The implementation of good medical practices is guaranteed by the development of guides for the most common diseases, thus, together with the definition of national health indicators, providing for the quality of the healthcare service delivery.

Improving quality and safety is one of the key goals of the healthcare system reform. Montenegro's Master Plan for the Health Sector Development (2010) sets a vision regarding healthcare quality. The Strategy to Optimise the Secondary and Tertiary Levels of Healthcare accompanied by the Action Plan (2011) places further emphasis on the need to introduce all elements of quality control and assurance. The National Strategy for Quality Assurance and Improvement in the Health Sector is aimed at introducing a legal and institutional framework for establishing the healthcare quality system, setting up formal quality management structures in individual establishments and for the overall system, ensuring staff training to be able to apply the quality system, as well as for quality system management and supervision over quality improvement.

Apart from the basic insurance covering the standard service package, over the upcoming period additional insurance is to be introduced. Additional insurance will cover services not included in the integrated basic service package, with the definition and regulation of services to be paid from the additional insurance to protect the interests of users and guarantee quality.

Maintaining the current level of services and benefits may be challenging, given the ageing population, improving healthcare technologies, and growing demands of the population for timely and high quality care. In 2007, the expenditure per capita was €170, significantly lower than in the EU. In 2011, the planned health system budget was €163 million, €22 million less than its reported needs.¹²⁶ Assuming the current contribution rates, a contribution based on an average employer's salary today would be roughly €50,000 per working life. There is a possibility that cost escalation and HIF deficits will require significant budgetary allocations that may be difficult to achieve if budget revenues do not increase.

The healthcare system is not sufficiently outcome-focused, has poor resource allocation mechanisms that promote large staff numbers and inefficient infrastructure utilisation. There are no medical protocols like in countries of EU that clearly delineate responsibilities of primary and secondary/tertiary levels for provision of treatment, services and drugs. There are only a few incentives to contain costs and pursue cost savings within the existing funding model. Linkages between hospital and primary care levels, in terms of continuity of care, referrals, treatment standards and information sharing, are still underdeveloped.

The respondents of the survey conducted in the healthcare sector identified the lack of doctors when they needed them to schedule an appointment (41.8%), overburdened doctors (23%) and difficulties in the process of reaching specialists (10%) as some of the fundamental challenges. Patients emphasize the importance of the improvement of material and technical conditions in public health system, and those working in healthcare emphasize that the degree of proficiency and

¹²⁶ In 2010: €168.51 million, or 14.37% of total current expenditure and budget funds and are primarily intended for the financing of public health, healthcare of the unemployed and financing public healthcare institutions or institutions in which policy holders are entitled to healthcare at primary, secondary and tertiary levels as well as financing activities of the Institute of Public Health, Agency for Medicines and Medical Devices and Medical and Pharmaceutical Association (Explanation of the budget for 2010).



availability of training of medical workers need to be improved. At the same time, the respondents found that the quality of the doctor-patient relationship improved (61.6%) and waiting times decreased (53.3%) as a result of reforms.¹²⁷

There is some inefficiency in healthcare sector staffing, with the number of non-medical staff making up 25.3% of total public health sector staff in 2008. Although, this share has been similar to those in neighbouring countries (e.g. the share of non-medical staffing in Serbia was 26% in 2007¹²⁸) and reduced by 3.5 p.p. compared to 1991, there appears to be a slight increase in the share of non-medical staff (by 0.6 p.p. compared to 2003) and this share remains rather high. In addition, the ratio of the number of doctors per 100,000 inhabitants in Montenegro (204.5) is still significantly below EU countries (321).¹²⁹ The share of non-medical staff can be further reduced through optimisation of management arrangements and more extensive use of ICT (see Table 4.5 below).

Table 4.5: Health workers (medical and non-medical) in 1991, 2003 and 2008

Profile	1991	2003	2008
Doctors and specialists	917	1,139	1,312
Dentists	275	265	98
Pharmacists	120	103	99
Other	..	..	..
Medical staff (all health workers)	3,485	5,464	5,405
Non-medical staff (administrative and technical staff)	1,961	1,787	1,826
Total: non-medical and medical staff (all employees in the healthcare sector)	6,815	7,251	7,231
%age of non-medical staff out of the total number of health workers	28.77%	24.64%	25.25%

Source: Table 2 from Master Plan for Health Development in Montenegro 2010-2013, p.19

Limited capacity of the institution of family doctor. The progress towards reorienting the health system away from hospital-dominated to the primary, family-doctor-focused model is still slow. “My doctor” is not always accessible and since he/she is the gatekeeper who can make referrals to specialists, and this often delays the appointment with the specialist. When patients get treatment and need some further follow-up with the specialist, they are supposed to visit their family doctor again and obtain another referral. Even in some urgent situations, it may happen that they wait too long to access the specialist. Some patients may opt to resort to bribes and ‘connections’ to reduce the waiting time or they decide on treatment in private facilities. There is no solid evidence that there is much improvement in quality, accessibility, timeliness and the range of services associated with the introduction of the institution of family doctor. However, the survey mentioned above confirms that so-far implemented healthcare reform has significantly contributed to building a higher quality relationship with the doctor (61.6%) and that it has had an impact on reducing the waiting time for examination (53.5%). Moreover, it has reduced waiting in lines (18.6%) and enabled better monitoring of patients (16%).¹³⁰

Every Monday I make an appointment with my chosen doctor because I don't know when I'll be sick.
It is impossible to make an appointment over the phone as they don't pick up the phone for days.
When the chosen doctor is absent, no one else wants to accept his patient for an examination.

Source: Integrity of the Health System in Montenegro. UNDP, WHO and Ministry of Health. 2011

The goal of relieving the secondary and tertiary levels of the health service and providing 85% of health provision service at the primary level has not been yet achieved. PHCs have limited staff capacity in terms of the numbers of doctors and their competencies, so a lot of patients are referred to secondary and even tertiary levels. The secondary and tertiary levels become overloaded and cannot offer proper treatment when needed.

127 Integrity of the Health System in Montenegro – UNDP, WHO and Ministry of Health. 2011.

128 MONTENEGRO: After the Crisis: Towards a Smaller and More Efficient Government, Public Expenditure and Institutional Review, Main Report, World Bank, October 2011, p.86

129 Master Plan for Health Development in Montenegro 2010-2013, p.19

130 Source: Integrity Assessment of the Health System in Montenegro, UNDP, WHO and Ministry of Health, 2011

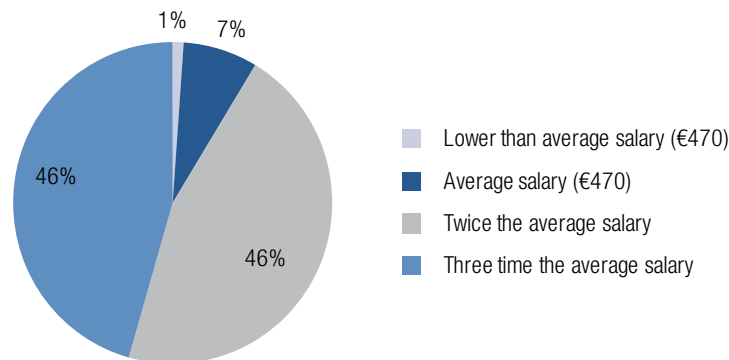
Limited and uneven access to basic healthcare services for socially excluded groups. To achieve sustainable and effective human capital outcomes, all social groups such as the elderly, unemployed, low-income groups, ethnic minorities and people with disabilities have to have access to good-quality healthcare services. Although about 20% of HIF revenue comes from the state budget allocation, of which a portion is earmarked to cover health insurance for certain marginalised population groups (long-term unemployed, refugees), these socially excluded groups face certain obstacles in accessing healthcare.¹³¹

Roma, for example, have worse health indicators in comparison with other population groups as they are exposed to a range of unfavourable structural factors that influence health, such as poverty, inadequate education and lower social integration. Most Roma live in small, compact settlements where housing conditions often lack basic sanitation, which contributes to their poorer health. Their access to healthcare is complicated by the fact that many of them do not have legal papers and their legal status in Montenegro remains undetermined. There are also strong prejudices and stereotypes among healthcare providers that create barriers for Roma.

Widespread informal payments in the healthcare system. Over recent decades staff salaries in the public sector have constantly decreased, which has fuelled corruption at all levels. The levels of compensation of healthcare professionals are relatively low with nurses making €40 and more a month, surgeons from €300-500 up to €1,000, and gynaecologists from €250-300. Such relatively low salaries of healthcare professionals have affected the values, beliefs and respect of the general population towards medical staff. Informal payments in the health sector have become widespread and take a number of forms and exist for a number of reasons. They range from the ex-post gift (e.g. for well performed surgery) and in-kind to the ex-ante cash payment (e.g. to schedule an earlier appointment with a specialist).

Many Montenegrins view the practice of informal payments as unofficial user fees given to healthcare providers for officially free services. The widespread informal payments undermine public confidence in the healthcare system as well as have negative impact on its effectiveness and efficiency. They encourage unofficial private practice in public facilities and diversion of patients from the public to private sector and result in after-hours practice and illegal profits generated from public resources. Moreover, such practice may additionally discriminate against the most vulnerable structures of population that cannot afford a gift or bribe in order to ensure that they are given proper health care.

Chart 4.4: UNDP Survey 2011. What should the monthly salary for doctors be?



Source: UNDP Quantitative research, 2011

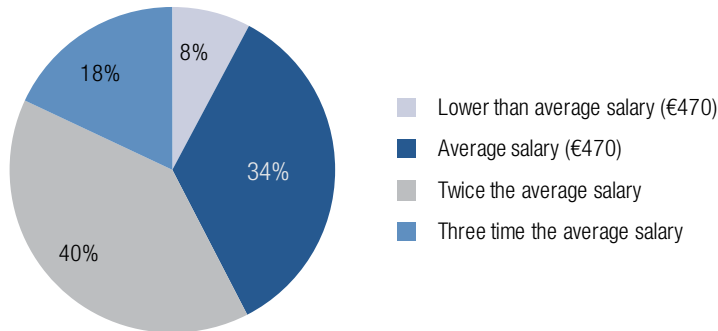
The informal payments and gifts have become part of the culture and are widely accepted as common practice. As a result, private out-of-pocket expenditures continue to constitute a large share of total healthcare expenditure. More than half of the respondents of the Ministry of Health survey stated that they gave money/gifts in exchange for services, with compensations ranging between €112 for surgeons to €30 to nurses. Nearly the same percent of doctors (49%) stated that they accepted gifts/money. 42.2% of the respondents indicated that they felt grateful and did have other expectations when giving money/gifts.¹³² One of the potential solutions to this problem is to consider increase the salaries of healthcare

¹³¹ MONTENEGRO: After the Crisis: Towards a Smaller and More Efficient Government, Public Expenditure and Institutional Review, Main Report, World Bank, October 2011, p.85

¹³² Source: Integrity Assessment of the Health System in Montenegro, 2011, UNDP, WHO and Ministry of Health

professionals. The overwhelming majority of the UNDP Survey 2011 respondents believe that the average salary of doctors and medical staff should be at least twice or even three times the average salary in the country (see Charts 4.4 above and 4.5 below).

Chart 4.5: UNDP Survey 2011. What should the monthly salary for medical staff be?



Source: UNDP Quantitative research, 2011

Informal payments in the healthcare system undermine the official payment systems, the universality, accessibility and equity of the healthcare system and hence have a negative impact on Montenegro's human capital. If these informal practices are not effectively addressed, they can be perpetuated and institutionalised as community norms and values when individuals will continue bypassing formal channels by using connections, paying fees or bartering for alternative treatments.

Capacity of doctors and other healthcare providers. Medical faculties were opened in many towns all over the former Yugoslavia and finally in Podgorica in order to develop local human resources in the health sector. As often happens with the establishment of new university graduate institutions, the studies could not be expected to deliver a level of training comparable to medical institutions of high visibility in the scientific world. As Montenegro is a small country, doctors do not always have the opportunities to improve their skills on a larger number of patients. Because of this, medical students do not have the opportunities to see some illnesses and learn how to treat them in practice. A medical faculty is extremely expensive to finance, maybe even more than to pay scholarships to a certain number of doctors/specialists who could pursue their medical degrees abroad. It might be advisable to explore if it is more cost-effective to cover tuition or fund a cost-demanding faculty with all the required expert staff and material resources in Montenegro.

Building Human Capital Through Healthcare Reforms: What can be done?

Since healthcare provision affects the level of the country's HC, there is a need to re-examine the extent and nature of policy interventions in the health sector, identify specific elements of the socialist health system that should be preserved and develop new strategies and approaches that will serve the needs of HC in the 21st century. The following suggestions can be considered to further advance the effectiveness and efficiency of the health sector and enhance its positive impact on the country's HC:

Enhance system capacity to develop and implement evidence-based outcome-focused policies and programmes aligned with EU models of healthcare. To design, implement and evaluate healthcare policies and programmes enhancing the country's human capital, the capacities of the Ministry of Health and local authorities should be strengthened. Decision-makers should be provided with appropriate knowledge on and analyses of the population health status and its major determinants stratified by population groups on regular bases. The health implications of all major policies, proposals and alternatives with influences on health and health determinants should be examined in detail. To facilitate data

research and analysis, a solid information base for the trends in population health and the underlying health determinants should be developed and be easily accessible to decision-makers and the public alike.

The capacities of the Ministry of Health and local authorities to design, implement and evaluate healthcare policies and programmes need to be strengthened with a view to improving the country's human capital. The health implication of all major policies, proposals and alternatives should be examined thoroughly. Health should be seen as the basis of overall development in order to involve all stakeholders in the implementation of the *Health for All* policy. The main assumption for such development is to implement all strategy papers and action plans developed through multi-agency efforts.

The integrated health information system, should cover the whole healthcare system and enable improved efficiency and service quality, but also to make savings both for the system itself and for the beneficiaries. Moreover, such a system generates an analytical database, enabling monitoring of trends in population health and of the health determinants, and the risk factors informing health policy choices. This will render a solid base for evaluation of the healthcare system in terms of its operational effectiveness, efficiency and cost-effectiveness aimed at choosing the most efficient and effective healthcare services.

The ongoing procedure for healthcare establishment accreditation and definition of service standards and rules in the public healthcare system and licensing of service providers has a bearing on the improved quality, equity, accessibility and affordability of healthcare services.

In the upcoming period, the good practice of giving priority to primary care, placing the emphasis on family medicine, will continue. Chosen doctors (family medicine specialists) should be the gatekeepers for the health system, and perform their function guided in the best interest of their patients. The healthcare system should have preventive and primary care at its core as its underlying principles, and increase hospital efficiency by establishing the same infrastructure, equipment, staff and service standards for the whole territory of the country.

Focus on financial sustainability and improve the effectiveness and efficiency of resource use by giving more decision-making powers to local authorities and hospitals. It is necessary to continue increasing the efficiency and sustainability of healthcare spending and continue shifting health financing from an input-based to a more output-based system at the levels of primary, secondary and tertiary care. A more flexible financing system, no longer based on strict input-based norms, would re-align provider capacities and improve efficiency.¹³³

If the patients gave back all the drugs they didn't use, the budget would be doing much better.

Source: UNDP Qualitative Study 2011, Employed focus group discussion, Podgorica

The transition towards results-based budgeting may be a long-term process, but it is worth pursuing as it will shift the thinking of decision-makers at the Ministry of Health, HIF and local health authorities. The results-based budgeting will improve transparency and accountability as citizens will become more aware of Ministry of Health goals and will demand the results of Government's healthcare policies and programmes. It is very important to maintain the focus on participatory approaches to policy development and emphasize participatory budgeting that will provide more scope for NGOs and the public in setting priorities for government expenditures at the central and local levels that will ultimately result in achievement of the goals of HC development.

The development of a new financing model can be coupled with providing greater management and budgetary autonomy for hospitals and the Health Insurance Fund as well as by setting the classification payment methods to ensure system efficiency. It is necessary to strengthen management skills and capacities and equip the managers of these organisations with the necessary planning, budgeting and accounting skills. Local healthcare administrations have to develop skills in keeping their books of accounts according to standards. A lack of competent public expenditure management can result in local authorities running up debts and lead to their inability to effectively deliver healthcare services. Recruitment patterns, training systems and personnel practices can be revised to attract and retain effective and motivated managers. Healthcare managers should be recruited and promoted on the basis of merit. Specific training opportunities on how to manage healthcare based on experiences of EU countries can be developed and delivered as well.

¹³³ MONTENEGRO: After the Crisis: Towards a Smaller and More Efficient Government, Public Expenditure and Institutional Review, Main Report, World Bank, October 2011, p.82



In the future, once an output-based system has been institutionalised, it may be beneficial to explore the possibility of introducing some organisational incentives so that the budgets can be changed based on the quality and quantity of services provided. Healthcare providers may be also required to more systematically report on effectiveness of their job performance through performance reports, rankings and other instruments.

There is a possibility that the range of benefits funded through the HIF will increase over time, which can be attributed to advances in medical technology, better public awareness and increasing demands to access healthcare innovations and other factors. Healthcare providers, who learn new procedures and benefit from more sophisticated training may advocate the need for HIF's coverage of new services. It is beneficial to define affordable benefit packages that are focused on services provided at the primary and secondary levels that will be based on careful analysis of the costs and cost-effectiveness of different treatments, as well as anticipated HIF revenues. Challenges such as ensuring availability of the necessary materials for laboratories to conduct necessary tests should be addressed.

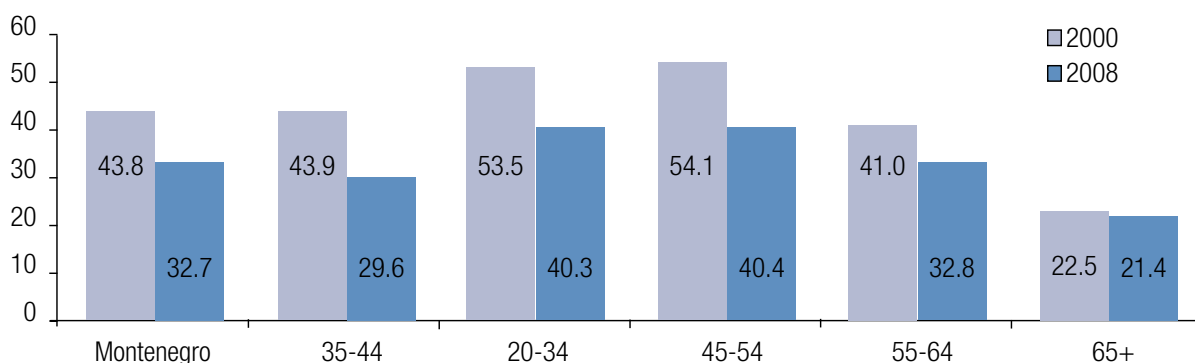
“Strategies aimed at population-wide reductions in salt consumption are highly cost-effective and will improve the general health status of the population. Salt intakes are excessive in almost all populations. Given the adverse impact of excessive salt consumption on health and particularly on blood pressure levels and cardiovascular diseases, policies to reduce population-wide dietary salt intake should be urgently implemented by all countries.”

Source: Reducing Salt Intake in Populations Report of a WHO Forum 2006, Paris, France.

Prioritise health promotion and prevention. Health promotion is an essential cornerstone of a modern approach to public health, seeking not only to protect health and prevent disease but also to actively improve the health of individuals and the population at large and ultimately of the human capital. The available data on smoking in men, for example, suggests that it is a highly prevalent risk behaviour and well-established addiction, with rates of over 40% in Montenegro. To improve the country's human capital in the long run, it is necessary to prioritise the goals of health promotion, prevention of diseases and prophylactics that often remain outside the core focus of healthcare reforms. Prevention of diseases rather than a curative approach could decrease health sector expenditures and give opportunity for the system to serve all better, preserving the benefits of the socialist model and giving the opportunity for the private sector to broaden the choices of citizens to lead a healthy and long life. The practices of regular check-ups and workers' resorts implemented in Yugoslavia were praised by some respondents of the UNDP Survey 2011.

Changing long-established patterns of individual and social behaviour is a long-term process that can be altered successful only if a set of well-coordinated measures strengthening public awareness and building institutional capacity and a national commitment to health promotion is implemented. Changes in policies, laws, taxes and awareness-raising campaigns should be coordinated to achieve maximum impact.

Chart 4.6: Smoking prevalence among adults, by age groups, Montenegro, 2000 compared to 2008 (%)



Source: National Health Population Survey (LSMS), 2004.

Some changes may include the increase of “sin taxes” on the consumption of alcohol and tobacco, continuing with health promotion activities in the area of communicable disease, notably HIV/AIDS, as well as programmes on alcohol and to-

bacco, with a focus on schools and raising public awareness of the importance of healthy lifestyles. Targeted awareness-building interventions may be implemented in schools educating pupils on how to read food labels to identify and avoid unhealthy items with high sugar, salt, and/or fat content.

Generally, the behaviour of the Montenegrin population is not conducive to good health, but some changes are noticeable as a result of health-promotion efforts. In 2008, smoking prevalence (Chart 4.6) was reduced from 42.9% in the overall population (LSMS survey – 2004 National Population Health Survey) down to 32.8% (the same survey in 2008). Over the period observed, reduced rates of smoking prevalence among all age groups were recorded.

The smoking prevalence rate among the young has also decreased (Table 4.6), as has experimenting with tobacco and exposure of the young to the detrimental effect of tobacco smoke in 2008 compared to 2004 (Global Youth Tobacco Surveillance - GYTS, WHO).

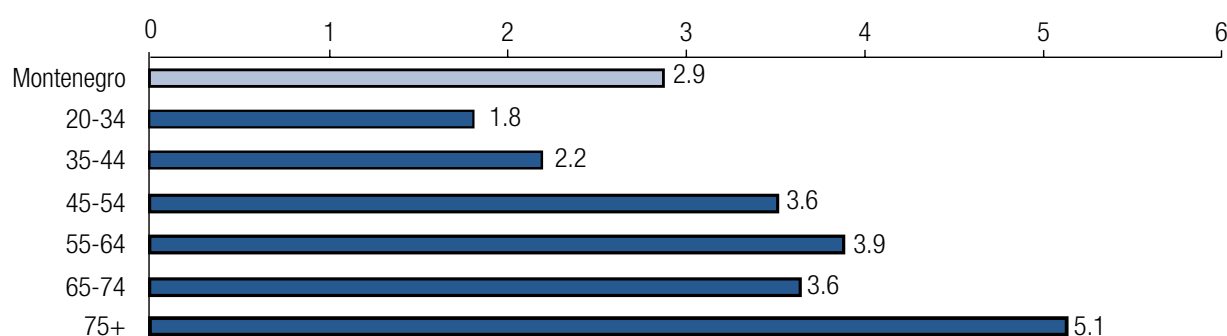
Table 4.6: Prevalence of smoking among pupils in Montenegro (aged 13-15)

Prevalence	2004			2008		
	Total	Boys	Girls	Total	Boys	Girls
Ever smoked cigarettes	35.9%	35.9%	38.9%	31.3%	30.7%	31.9%
First time before the age of 10	46.0%	46.0%	54.8%	39.6%	40.6%	38.8%
Regular cigarette smokers	5.6%	5.6%	6.0%	5.1%	5.7%	4.4%
Regular users of other tobacco products	4.1%	4.1%	4.1%	3.6%	3.7%	3.5%
Non-smokers believing they will start smoking next year	18.2%	18.2%	19.9%	16.0%	15.7%	16.5%

Source: Report on GYTS findings for Montenegro in 2008

The National Population Health Survey shows that the share of Montenegrin citizens who drink occasionally was much higher in 2000 (26.7%) than in 2008 (22.2%). The survey also showed similar shares of daily users of alcoholic drinks in the given years, mostly as a consequence of a well-set habit of consuming alcohol with meals (around 3% of adults drink alcohol every day, 0.4% of women and 5.6% of men). The number of alcohol consumers increases with age, being most present among the oldest age groups (Chart 4.7).

Chart 4.7: Adults consuming alcohol on daily basis, by age groups, 2008



Source: The National Population Health Survey, 2008

In 2009 (the last year for which data is available due to the previously mentioned issue with registering deaths), according to the data provided to the Public Health Institute, there were in total 5 deaths caused by mental and behavioural disorders due to psychoactive substance use (F10-F19). Out of total mortality, some 8% of deaths were attributable to mental and behavioural disorders.

The “Demand for addiction disease treatment” as an indicator implies the organisation and collection of data for inpatient and outpatient institutional and non-institutional centres for drug-addiction treatment, providing data on clients who are

entering rehabilitation and those already on the programme (Table 4.7). Currently, the drug user register is being introduced at healthcare establishments to provide consistent and accurate records.

Table 4.7: Patients treated for drug abuse in Montenegro in 2007, 2008 and 2009

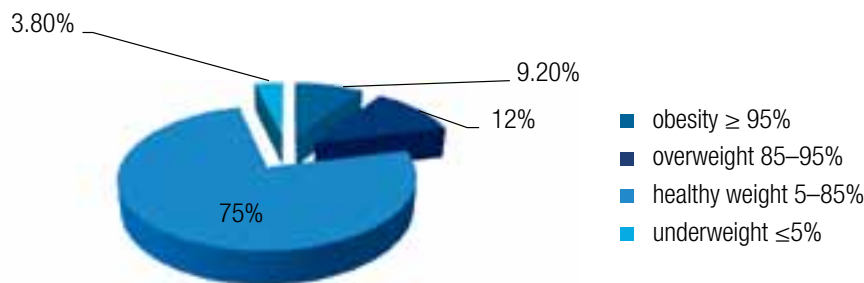
Year	Number of visits			People per 1,000 inhabitants
	Outpatient services	Inpatient services	Total	
2007	420	204	603	0.96
2008	328	197	525	0.83
2009	388	160	548	0.87
2010	296	98	394	0.63

Source: The National Population Health Survey, 2008

According to the 2008 National Population Health Survey, in Montenegro children and adolescents mostly spent their free time with other children and friends, playing social games (chess, cards, etc), with a rate of 71%, then engaged in team sports (football, basketball, volleyball, etc.) with a rate of 22.6%, followed by household chores or outdoor work (19.1%), individual sports (8.7%) and walking pets (7.3%).

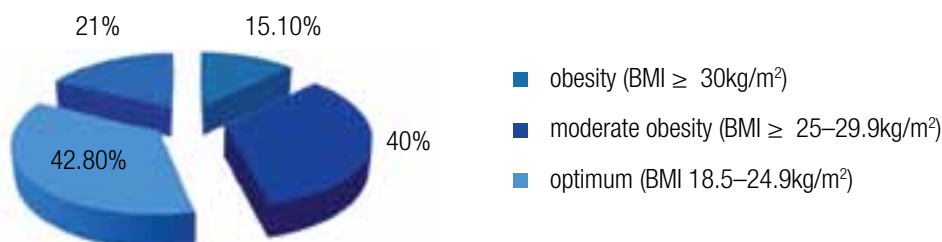
Almost one in three children aged 7-14 (30.8%) said they engaged in sport activities outside school at least 2 times a week, and more than one in four adolescents aged 15-19 said the same. Children and adolescents in Montenegro aged 7-19 spend on average 2.5 hours a day watching TV, CDs or video tapes on school days, and 3.6 hours a day during weekends. On average, children spend 1.5 hours a day in front of their computers.

Chart 4.8: Children and adolescents aged 7-19 by body weight, Montenegro, 2008



According to the 2008 National Population Health Survey, three-quarters of children and adolescents aged between 7 and 19 in Montenegro were of normal weight (Chart 4.8). The survey findings showed that judging by the BMI, 3.8% children were underweight, while the total of 21.2% were overweight or obese (the highest-ever recorded share). The percentage of overweight schoolchildren is rather high and calls for continuous monitoring of weight and education on proper nutrition.

Chart 4.9: Body weight values for adults in Montenegro



The findings of the 2008 National Population Survey for Montenegro show that over the past 8 years the prevalence of overweight people further increased among the overall population of Montenegro. Specifically, in 2008 the prevalence of overweight people was 40% (32.2% for women and 48.4% for men) while the prevalence of obesity was 15.1% (14.5% for women and 15.8% for men). This means that 55.1% of adults in Montenegro (46.7% of women and 64.2% of men) are overweight to different degrees, which is quite disconcerting (Chart 4.9).

Ongoing activities of health promotion as regards transmittable diseases, particularly HIV/AIDS and alcohol and tobacco programmes, focusing primarily on schools as places of special interest, and raising public awareness of the importance of proper diet, physical activity and vitamin intake, should continue and be further enhanced. Targeted public awareness activities may take place in schools to educate schoolchildren about how to read food labels and avoid unhealthy items with high sugar, salt and/or fat content. Obesity is recognised as a health issue in Montenegro and such efforts may be an effective tool to address it. The practice of systematic check-ups for younger schoolchildren and workers in specific jobs should continue.

Our children are less active and eat more unhealthy food. But, that is a systemic problem, programmes need to be introduced to force children to be more active and eat healthily. Healthy Lifestyles has been introduced as a subject in schools but my opinion is that children should learn about healthy lifestyles as early as from the first grade, though I am not sure whether it is the case in the region. However, that is not enough; there is a lot of evidence that knowledge does not change habits. Children are unwilling to take PE classes – classes are too short, they need to undress, there are too many of them in a limited space, our school is increasingly more burdened with theoretical classes leaving less and less time to be physically active. They sit through seven classes at school, overloaded with teaching, too much theory that might not even be needed in their lives ever. Schools should work only in one shift, provide healthy meals and make it possible for children to spend time with their parents when they get back home. For people having sedentary jobs it is advisable to spend some time walking.

Expert interview - Boban Mugoša, director of the Institute for Public Health of Montenegro

Changing well-set patterns of individual and social behaviour is a long-term process and can be altered successfully only if a set of well-coordinated measures strengthening public awareness and building institutional capacity and national commitment for health promotion is implemented. Changes in policies, development of strategies, laws and taxes should be coordinated to achieve the maximum impact on health. Such measures fall outside the health sector competences, but this sector often initiates their proper development in order for legislation, as a supporting factor, to be conducive to good health. It is paramount to work on organisational strategies for health education, primarily through public-awareness campaigns on the impact of behaviour on health.

Ensure Equity in Access to Quality Healthcare Services

Health inequalities persist in Montenegro despite continuously increasing allocations for the healthcare sector. Socially excluded groups face multiple and diverse barriers to accessing healthcare. Rural residents, for instance, face a range of challenges associated with lower population density, longer travel distances for the service users and providers, and a lack of economies of scale for healthcare service providers. The RAE population faces challenges associated with a lack of documents confirming their legal status and sometimes with the prejudices of healthcare providers. As different groups face distinct barriers, it is necessary to identify, monitor and address these barriers, facilitating access to essential services for all.

Equity can be promoted by establishing nationwide medical standards. The accreditation mechanism of healthcare providers can ensure that these minimum standards of equipment and care are met. Healthcare entities in areas with limited coverage and access can be identified and additional capacity-building measures implemented to address their circumstances. Additional supports can be provided by requiring graduates of medical and nursing schools to serve for a period of time in underserved areas.



Parents of two-year-old Igor Kovacevic from Bar are just one of many families supported by the media and citizens in collecting money for treatment in international health institutions specialising in certain diseases. Before him, the persistent mothers of Jovana, Andrea and Sara from Cetinje were also supported by a large number of Montenegrin citizens who collected resources for treatment in Moscow. Referring the insured person outside of Montenegro for a treatment is subject to approval by the council of the Clinical Centre of Montenegro. However, the procedure is often slow and the criteria are demanding. At the same time, such cases motivate citizens to action and but reduce relying on public health insurance.

<http://www.vijesti.me/vijesti/niko-ne-zna-cega-mali-igor-boluje-clanak-74858>

<http://www.vijesti.me/vijesti/ivana-andrea-sara-utorak-putuju-lijecenje-moskvu-clanak-36460>

If new co-payment models for selected services are introduced and prices for selected hospital and specialist services, diagnostic tests and pharmaceuticals are introduced/increased, it is important to develop specific support programmes preventing further alienation of socially excluded groups.

The equity aspect should be addressed by implementing effective and system-wide anti-corruption strategies. Some fundamental policy questions that should be addressed are how to prevent healthcare professionals from using the public facilities for private gain and seeking informal payments, and how to keep the best doctors in the public sector. In 2011, an anti-corruption campaign was launched and some doctors and their accomplices were arrested. These interventions should be vigorously continued with extensive public involvement and support.

Explore the Possibilities of Expanding Private Insurance and Private Service Providers

The state should continue taking primary responsibility for basic healthcare services, improved coverage and access for socially excluded groups that are most exposed to health risks. Other core priorities of the state may include active prevention, immunisation and prophylactic services.

Involvement of the private sector in both the financing and provision of healthcare services needs to be further explored because of the potential efficiency gains and greater consumer choice it offers. The private sector for clinical services remains limited due to reliance on out-of-pocket payment and undeveloped insurance markets, as well as high entry costs. Demand is limited to urban settings where the ability to pay is greater. Liberalisation of existing provision has largely been limited to the pharmaceutical sector and outpatient care. Although privatisation of hospitals is not advisable to preserve the social function of hospitals and ensure their accessibility for all, a more diverse model of healthcare provision with private-care components should be encouraged. The expansion of private healthcare in public or private facilities may be explored, which will in turn require a stronger role for government in licensing, accreditation and quality assurance.

Two sectors – public and private – should be connected and utilised in the most useful way. The health system reform that is underway envisages the signing of contracts with private providers to ensure that in those cases when somebody cannot get the services in public health institutions, he/ she can get them through a private provider and then get reimbursed by the HIF. Other approaches may explore the use of out-of-pocket expenditures as a form of co-payments or co-insurance – paid for services partially covered by health insurance and designed to discourage unnecessary healthcare consumption – or in the form of full cash payments – by individuals without insurance or for services that lie outside the benefit package. Private insurance can mobilise additional resources and minimise the extent of the grey economy in healthcare provision. It is advisable to promote voluntary insurance to increase coverage and reduce the deterring impact of out-of-pocket formal and informal payments on use of care. Expansion of private insurance may have a positive impact on the country's human capital by encouraging employers to purchase healthcare coverage plans for their employees to keep them healthy.

Implement policies targeted at increasing birth rates. Birth rates have been declining in Montenegro over the past few decades. Although this unfavourable demographic trend was reversed in 2005-2007, additional measures should be implemented to maintain current population levels in the long run. Low birth rates have a significant negative impact on the country's human capital. There will be fewer young adults to care for elderly family members and contribute to social programmes; the workforce will be older and less competitive, and the practice of having one or two children can become



institutionalised as a social norm in the long run. To create more favourable conditions for couples to have more children, a set of interventions can be implemented that include improving women's rights in the field of health protection, particularly reproductive rights; providing more generous benefits regarding maternity and paternity leave in legislation, such as the possibility to care for their children at home when the child is very young; reduction of tax on goods such as clothes and food for children and direct transfers to low-income families with children; and improved labour rights of mothers employed in the private sector. Additional measures may include increasing the supply of childcare places at affordable costs and expansion of extracurricular activities.¹³⁴

The Montenegrin health system has to strengthen its capacity to meet environmental challenges. Montenegro was ranked 154th in 2009 in terms of Carbon Dioxide emission by country, producing 1.88 million tonnes (1.81 million in 2008), with 2.80 tonnes per capita and a 4.3% increase from 2008 to 2009.¹³⁵ It is necessary to keep environmental factors in consideration in developing and implementing healthcare reforms.

The main air pollution indicators are: SO₂, smoke and nitrogen oxide. The SO₂ concentrations measured in 2010 are somewhat larger than in 2009. Apart from Pljevlja where a large number of occurrences of exceeding the NO₂ hourly mean value were recorded, in 2010 the concentration of this air pollutant was at the level measured in 2009. The recorded values in the given years were below the allowable limits. The maximum values for pollutants are recorded in summer-time which is indicative of the existence of traffic-related emissions. The air quality in Montenegro, judging by the global sulphur-dioxide (SO₂) indicator, is below the lower assessment limit in Podgorica, Nikšić and Bar, which means the air is of very good quality (Source: State of the Environment Report, 2010, Montenegro's Environmental Protection Agency).

The air in urban areas mostly contains PM10 particles (particulate matter less than 10µm in diameter), resulting most often from fuel burning in large and small burners and internal combustion engines. All measuring stations recorded low levels of smoke.

The test results on the soundness of drinking water and sanitary and hygiene conditions of water-supply facilities in 2010 within the territory of Montenegro showed that 7.19% of samples of chlorinated water did not meet the norms of hygienic soundness, most often because of the increased total bacteria count and the presence of faecal indicators. Based on the results of physical and chemical testing, 16.6% of chlorinated water samples were not safe. The most common reason was inadequate concentration or a total lack of residual chlorine. In some water supply networks down at the coast, particularly during low water periods, water becomes brackish. Also, a smaller share of the samples tested showed an increased iron content (source: Public Health Institute).

Table 4.8: An overview of controls of the hygienic soundness of drinking water

Year	Water			
	Chemical analysis		Microbiological analysis	
	Total samples	% unsafe samples	Total samples	% unsafe samples
2008.	6,053	13.25%	5,957	17.98%
2009.	6,465	16.42%	6,826	16.98%
2010	6,613	16.6%	7,265	7.19%

Source: The Institute for Public Health of Montenegro

According to the Strategic Master Plan for Solid Waste Management, waste disposal is intended to take place at eight regional landfills distributed throughout the country. According to western standards, waste incinerators are envisaged after the year 2020. Improper waste disposal leads to soil degradation. Based on the testing done by the Centre for Eco-Toxicological Research, soil samples taken from municipal and industrial waste disposal sites show increased concentration of inorganic pollutants (lead, cadmium, nickel, chromium and arsenic) as well as organic pollutants (PAHs and PCBs), having a negative impact on all environmental aspects.

134 For more policy instruments, see OECD, Can Policies Boost Birth Rates, Policy Brief, November 2007.

135 <http://www.guardian.co.uk/news/datablog/2011/jan/31/world-carbon-dioxide-emissions-country-data-co2>



Chapter 5.

Social Capital

Social Capital and its Importance for Human Capital

Montenegro went through a dramatic transition where the old institutions, policies and processes of creation and utilisation of human capital were partially or fully replaced with new ones. Does it mean that continued reforms and increased budget allocations for education and training, healthcare, and social protection will automatically lead to increased human capital and improve human development opportunities for everyone? This chapter demonstrates that human capital in Montenegro is heavily influenced by the country's social capital and it is necessary to support development of the social capital to improve country's human capital.

Human capital creation and utilisation is a social activity as it happens through the interactions of ideas and individuals. Social interactions are necessary to create and utilise human capital. Robert Putnam, for example, views social capital as networks and norms of civic engagement. Without participation in public life, feelings of trust and bonds of reciprocal help are undermined and the ability to solve problems and sustain prosperity is weakened. Putnam also argues that wealthy communities did not become 'civic' because they were rich; rather, they became rich because they were 'civic'. McDowell supports this observation, suggesting that quality civic relations encourage confidence and entrepreneurial initiatives.¹³⁶ Fukuyama defines social capital as a set of non-formal institutionalised values and norms within a society that facilitate cooperation among the society's members.¹³⁷ The term social capital is too multidimensional that it has taken on so many meanings so that it lacks analytical precision.¹³⁸ It can be seen as friends, colleagues, and more general contacts through whom people receive opportunities to use other forms of capital.¹³⁹ Obligation, trust, information flows, organisation, friends, membership, culture, norms, networks, and civic engagement are only some of the aspects falling under the social capital category.¹⁴⁰

At the individual level, social capital characterises the ability of an individual to start and use a network of social contacts in an efficient manner to achieve his/her goals. To possess social capital an individual has to be connected with others, because the others and these connections are the real source of his/her advantages.¹⁴¹ Social capital is formed within various groups: families, local communities, states, companies, national and administrative units, or different groups at the level of the civil society. At the individual level, social capital is based on relations of trust, reciprocity and honesty, while at the level of society it is determined by the rule of law and respect of contractual obligations and civic freedoms. As these characteristics vary from country to country, different societies have distinct levels of social capital. One of the most important factors determining the levels of social capital is the radius of trust. If mutual trust is concentrated at the level of small social groups such as family and closed organisations, society's social capital is relatively low. If relationships of trust are spread across a whole society, a country has a higher level of social capital, which is a precondition of economic prosperity and human development.

There is a substantial body of research confirming positive relations between social capital and such outcomes critical to human capital as better school performance, lower crime rates and better public health. Human capital is intrinsically

136 McDowell, G.R..1995. "Some communities are successful, others are not: Toward an institutional framework for understanding the reasons why". In D.W. Sears and J.N. Reid, *Rural Development Strategies*. Chicago, Nelson Hall.

137 Fukuyama, F. (2000) *Social Capital and Civil Society*. IMF Working Paper 213; <http://www.imf.org/external/pubs/ft/seminar/1999/reforms/fukuyama.htm>

138 On the importance of social capital, see Robert Putnam.1993. *Making democracy work: Civic traditions in modern Italy*. Princeton, New Jersey: Princeton University Press; Robert Putman. 2000. *Bowling alone: The collapse and revival of American community*. New York: Simon & Schuster.

139 Burt, G.. 1992. *Structural Holes*, Cambridge: Harvard University Press.

140 Lindon J., Robison, A. Allan Schmid and Marcelo E. Siles. 2002. *Is social capital really capital?*, *Review of Social Economy* 60.1 (March 2002)

141 Portes Alejandro. 1998. *Social Capital: Its Origins and Applications in Modern Sociology*. *Annual Review of Sociology*, No. 22.

connected with social capital, whereby they strengthen each other. A country's limited social capital makes impossible effective human capital creation and utilisation and eventually limits human development opportunities for all. There are a few critical elements of social capital that are explored in this chapter.

- **Social networks.** If a country has dense networks of social and civic engagement and participation, it is more likely that members of a community will cooperate for mutual benefit. Social networks exist at the microscopic level among friends and family; the mezzo level in neighbourhoods, work places, local communities; and the macroscopic at the country level. Dense social networks facilitate collaboration among different social groups that may share common problems and concerns. Through collective actions, involving multiple partners and resources, common solutions can be found and effective solutions developed and implemented. Political participation, which is also a reflection of the density of social networks, may help to improve the performance of the government and promote human development for everyone. The effectiveness of any collective action is influenced by the knowledge and level of participation of a larger number of citizens in decision making.
- **Trust.** High levels of trust between individuals in a community, a market place or an organisation lower the transaction costs of 'doing business' and hence positively contribute to physical and human capital creation and utilisation.¹⁴² It is much easier, for example, to conduct any business activity if business partners and government institutions can be trusted. In countries with high levels of trust, credibility of state administration is stronger, which has a positive effect on investments and the scope of economic activities. These societies rely less on formal institutions that deal with protection of property rights and contracts that further lowers transaction costs. In the area of employment, for instance, high levels of trust allow employers to make hiring and promotion decisions on the basis of objective criteria such as educational attainment, skills and references and rely less on such subjective characteristics as family background and blood relations. Stephen Knack and Philip Keefer demonstrated through their research based on a sample of 29 countries that levels of trust and civic cooperation are positively correlated with the economic efficiency and growth.¹⁴³ They demonstrated, in particular, that a 10% increase in the level of trust corresponds to economic growth of 0.8%.
- **Shared norms and values.** Shared norms and values set society's preferences and expectations. Social norms within a community act as barriers to narrow personal interests, thus encouraging socially desirable behaviour of individuals. By limiting harmful behaviour, social norms affect the reduction of transaction costs, and it is almost impossible to imagine transactions among anonymous individuals without social norms. Social norms develop and maintain complex codes of behaviour, regulating who is supposed to do what and where which relieve all members of society from the necessity of engaging personally in many decision-making and conflict management processes. All members of the community share knowledge about expectations and codes of behaviour associated with certain institutions that help in understanding the situations correctly and anticipating what is more likely or unlikely to happen.

Social norms are more stable and easier to apply in places where social networks are denser, which at the same time affects the increase of confidence within the society. Where network density is lower, there is a greater possibility that disrespect for norms will go unnoticed and unpunished. Individuals will then tend to have less confidence in each other, which will cause the weakening of social capital. Formal rules and institutions also have a strong influence on social capital. People trust institutions when there is a sequence of repeated interactions, formal rules and reputation, which encourages individual's confidence and safety. Value system and norms may be of such a nature that they fully or partly hinder cooperation among society members. This can reduce the community's economic achievements and contribute to slower growth and use of human capital.

142 OECD Insights. Brian Keeley. 2007. *Human Capital. How What You Know Shapes Your Life*.

143 Quantification of social capital is difficult as the methodology is still insufficiently developed. See: Solow Robert (1970): "A Contribution to the Theory of Economic Growth", Penguin



Social Capital of Montenegro: Legacies of the Past and its Current Status

What is Montenegro's social capital? Does the country have dense social networks and relations of trust among its citizens that positively contribute to effective human capital development and utilisation? Did the socialist model based on the concepts of ideology-influenced collective actions and volunteerism survive the transition? How did market reforms and income stratification as well as the mixed national, ethnic and religious structure of the population affect social networks and relations of trust in Montenegro? How did the norms and values of society's members change and how does it influence the country's human capital? The following discussion attempts to answer these broad questions and reflect the current situation in Montenegro.

Historical Legacies and Their Impact on Social Capital

The social capital developed in the old socialist system has been significantly weakened and altered by transition processes and globalisation. Montenegro successfully transitioned from a predominately planned, centrally-managed economic system and a single-party communist political system to a market economy and democracy. The new Constitution and a series of laws establishing formal foundations of democracy were adopted. Public administration reforms were implemented and civil society emerged and quickly expanded.

Social networks, norms and values established in the socialist Yugoslavia were dramatically altered, but some of their elements survived and continue to matter even today. Although new institutions and processes shaping social capital formation and utilisation were introduced, such old norms and values as personalisation of connections and state paternalism continue to matter.

Like in any socialist system, in Yugoslavia all parties involved in the economic activities tried to personalise exchanges to maximise their opportunities. In a democratic capitalist system, where the variety and number of exchanges is high, the personalisation of exchange is difficult to achieve, while the socialist system with its restricted number of exchanges and vertical integration of enterprises facilitated such personalisation. Because of the extensive fusion of political, social and economic power in the socialist system, a dense network of informal ties and personalised exchange played a decisive role for personal well-being and career growth. Personal contacts linking decision-makers of the Communist Party, trade unions, regional or local governing councils, and enterprises became extremely important for individual success and were more valuable than individual economic capital.

The socialist economic system with its distorted incentive system and personalised connections undermined the work ethic so that hard work, diligence, reliability and initiative were often not rewarded with promotion and higher salaries. In the 1980s, and particularly in the 1990s it became clear that a long time would pass before many categories of workers start respecting their working hours while the goals of achieving innovativeness in the workplace looked almost unattainable.

Social networks, relations of trust, values and norms in Montenegro were also affected by a series of economic and political events in the 1980-1990s. Yugoslavia's economic crisis in the 1980s resulted in a significant reduction of labour productivity, decrease in personal incomes and a dramatic increase in unemployment. Mismanagement of the economy and ineffective reforms implemented in the 1990s, ethnic military conflicts, an extended period of international economic sanctions, and the damage to Yugoslavia's infrastructure and industry during the NATO airstrikes in 1999 left the economy only half the size it was in 1990. Industry utilised only 20–30% of its rated capacity and the banking sector was on the brink of bankruptcy. The official unemployment rate exceeded 30%. Economic isolation favoured the development of an underground economy, corruption and organised crime that negatively affected the processes of social capital formation and utilisation.

During these periods of extreme hardships many citizens lost their savings and became victims of pyramid bank frauds. These fraudsters ran fraudulent investment operations that paid returns to their investors from their own money or the

money paid by subsequent investors, rather than from any actual profit earned. The trust of individuals in other people, the banking system and the ability of the state to protect their investments and well-being in general was undermined.

The country's social capital was significantly damaged by the wars, ethnic and religious conflicts when people were disappearing and could not be traced. Facing severe economic hardships caused by wars and international sanctions, some people violated laws and common society conventions. The public authorities even had to resort to controversial transit of cigarettes and openly admitted it, in order to provide pensions and social transfers to the most vulnerable groups of citizens. The period of transition, conflicts and wars, privatisation and the newly-created partocracy, where the political process is dominated by political parties and citizens' involvement is limited, almost completely destroyed the trust of citizens in other people and their power to influence decision-making, affecting their own lives.

Are We Satisfied with Our Lives?

The goal of human development is to increase capabilities enabling people to achieve their individual and collective ends and to give them freedoms to do so. One of the potential measures to capture human development is to assess the life satisfaction of individuals. Such an assessment could be compared with a stethoscope used by doctors to evaluate patients' health conditions.

A focus group of teachers and professors reported that health and family is what "makes every person happy."
"Family harmony and modesty are the values that contribute to the satisfaction of each individual".

UNDP Qualitative Study 2011. Secondary schools teachers focus group, Podgorica

Does the ownership of a car and a house and having a job that we like guarantee our happiness? What are the factors that determine our happiness? Some people value material items and money, some prioritise family and children, others believe that love is the only thing that matters in life. In general such factors as material well-being, health, work and employment, education, safety, community, emotional well-being, spiritual and family life and the country's situation affect our life satisfaction. Life satisfaction is significantly influenced by the individual's personal values and social relations. So, measuring life satisfaction is important not only for assessing Montenegro's progress in human development but also to capture the country's social and human capital.

In Montenegro, like in all Central and East European countries, the transition from socialism to capitalism was accompanied by a dramatic reduction in life satisfaction following GDP decrease. Unfortunately, the levels of life satisfaction did not recover commensurately as the GDP increased. In general, improved satisfaction with material living levels that resulted from GDP increase has occurred at the expense of decreased satisfaction with work, health, and family life. Disparities in life satisfaction have increased markedly with those hardest hit being the less educated and persons over age 30; women and men have suffered about equally.¹⁴⁴ In 2011, according to an extensive EBRD study, life satisfaction in most transition countries remains noticeably lower than in Western European countries. Higher levels of life satisfaction are associated with employment, higher education and good health, as well as with income and economic growth.¹⁴⁵

In Montenegro, satisfaction with life has risen significantly since 2006. According to the EBRD Survey 2011, more than 40% of people declare themselves satisfied with life compared with less than 30% in the previous survey conducted in 2006. The level of satisfaction is highest among young people and lowest among individuals over 60. It also rises sharply according to income level, with nearly 70% of the upper-income group declaring themselves satisfied with life.¹⁴⁶

According to the UNDP Survey 2011, more than one-third of respondents are very satisfied with their lives (8, 9 and 10), and 16.6% are neither satisfied nor dissatisfied with their lives (score 5 on a scale from 1 to 10).¹⁴⁷ One-fifth of citizens are very dissatisfied with their standard of living, while 15.0% are neither satisfied nor dissatisfied. Montenegrins express

144 Easterlin, Richard A. 2008. *Lost in transition: life satisfaction on the road to capitalism*. IZA discussion papers. No. 3409

145 European Bank for Reconstruction and Development. 2011. *Life in Transition: After the Crisis. Montenegro*.

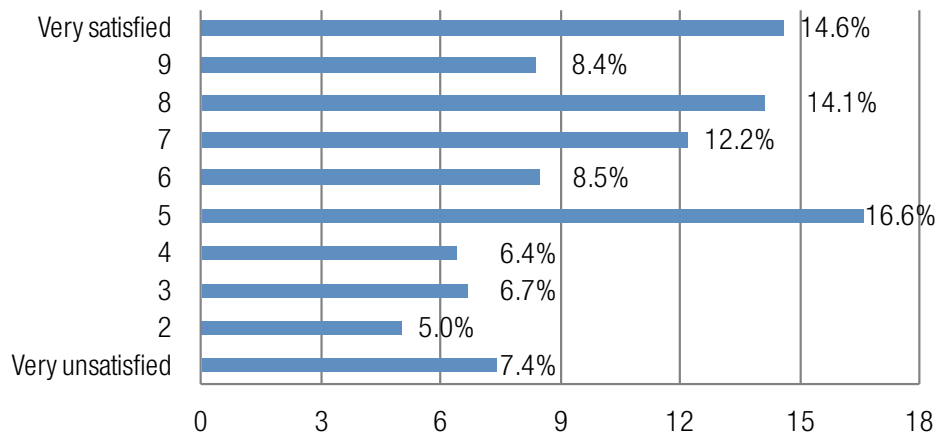
146 European Bank for Reconstruction and Development. 2011. *Life in Transition: After the Crisis. Montenegro*.

147 Measured on a scale 1-10 where 1 = very dissatisfied and 10 = very satisfied.



satisfaction with their job (44.1% evaluate it with scores of 8, 9 and 10), family life (43.3% are very satisfied, and 3.3% very dissatisfied), housing (46.3% evaluate their housing conditions with scores of 8, 9 and 10) and social life (39.2% are very satisfied), and there is a small percentage of those who are very dissatisfied with these aspects of life (see Chart 5.1 below). The majority of respondents believe that they have freedom in decision making and control over their lives. Life satisfaction doesn't increase with increased education attainment as only 15.1% of those who finished university/college are very satisfied and 19.6% of those with secondary education are very satisfied with their lives.¹⁴⁸

Chart 5.1: UNDP Survey 2011. Life satisfaction (on a scale of 1-10)



Source: UNDP Quantitative research, 2011

There are significant regional variations in terms of life satisfaction as the residents of the central and southern regions demonstrate higher levels of life satisfaction. Interestingly enough, the high scores in the southern region are driven by satisfaction with standards of living, while the residents of the central region are more satisfied with family life and education (see Table 5.1 below). Men tend to be more satisfied with their lives in all of the domains, with the exception of job/work where female respondents are slightly more satisfied.

Table 5.1: UNDP Survey 2011. Life Satisfaction: Regional Differences

	North	Central	South
% share in total sample:	27.4%	46.3%	26.3%
Satisfaction with:			
Life in general	6.02	6.22	6.23
Education	6.04	6.46	6.15
Job/work	7.21	6.57	6.64
Standard of living	4.27	4.33	5.28
Housing conditions	6.63	6.68	6.67
Family life	7.97	8.12	7.73
Health	7.10	7.46	7.36
Social life	7.89	8.07	7.99

Average score on a scale of 1-10 where 1 = very dissatisfied and 10 = very satisfied.

Source: UNDP Quantitative research, 2011

148 It should be taken into consideration that the sizes of these two groups of respondents were quite different. 40% of UNDP Survey 2011 respondents completed four year secondary education while only 11.8% finished university.

One of important findings of UNDP Survey 2011 is that life satisfaction of Montenegrins increases in all domains if we have close friends. We are more satisfied with our education, job, standard of living, housing conditions, family life, health and social life if we have close friends (see Table 5.2 below). This finding confirms the importance of social capital to human development.

Table 5.2: UNDP Survey 2011. Life Satisfaction and Having Friends

	Yes I have close friends	I do not have close friends, just acquaintances
% share in total sample	89.7%	10.3%
Satisfaction with:		
Life in general	6.33	4.82
Education	6.39	5.20
Job/work	6.80	5.34
Standard of living	4.68	3.54
Housing conditions	6.77	5.66
Family life	8.11	6.83
Health	7.47	6.20
Social life	8.17	6.55

Average score on a scale of 1-10 where 1 = very dissatisfied and 10 = very satisfied

Source: UNDP Quantitative research, 2011

Table 5.3 UNDP Survey 2011. What are the most important problems that should be solved so that your child/grandchild could live in a better country?

	%
Unemployment reduction	14.7
Economic development	12.4
Reduction of poverty and social exclusion of vulnerable groups	6.7
Better health care	6.6
Rule of law, to eliminate daily violation of regulations, to finish business in a "regular" way and not by using "shortcuts", connections	6.4
Better educational system	5.8
Less corruption	5.6
Better, more efficient public and state administration and better performance of public institutions, services (transport, utilities, inspection, etc.)	4.6
Healthy environment (ecology)	4.0
To preserve the system of values	3.7
Better social protection	3.7
Development of democracy and human rights	3.6
Better homeland security	3.5
Better management of national economic and natural resources	3.3
Better international relations (including relations with neighbouring countries)	3.1
More affordable loans	3.0
New technologies	3.0
To overcome negative demographic trends (low birth rate, aging population)	2.1
More efficient judiciary	1.8
Improvement of minorities' position	1.2
National identity issues (language, state symbols, promotion of the Montenegrin history and values, etc.)	1.1
Total	100.0

Note: From a list of 21 factors, respondents were asked to select up to five most important problems. The values in the table show the percentage of total responses.

Source: UNDP Quantitative research, 2011



The respondents shared their concerns as well. The years of transition and unfair (real and perceived) privatisation, corruption and nepotism associated with these processes eroded social capital and raised concerns about future of children. The respondents' greatest concern is uncertain future of their children. Many respondents believe that country's resources have been sold out and there is nothing left for their children (41% of respondents are very concerned). Other issues of concern are corruption (40% respondents are very concerned) and organised crime (35% of respondents are very concerned). Other points of concern are a lack of financial resources for living (33.4%), illness (almost 34.5%), job loss (27%), lack of access to health care (22.7%), loss of housing (19%), hunger (17.5%) and lack of access to education (17%). When asked what are the key problems that should be addressed so that our children could live in a better country, respondents focused mostly on the economy and emphasised the reduction of unemployment and economic development (see Table 5.3 above).

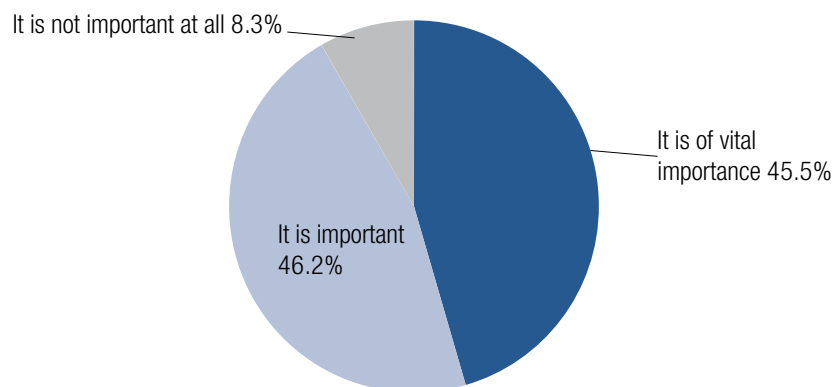
What are Our Current Values?

Montenegrins continue to believe that the state should address many of their concerns. Many values of the old socialist system did not lose their traditional legitimacy with the loss of their legality. A significant share of Montenegrins, especially the older generation, still have state paternalistic views and often do not want to accept responsibility for their own destiny.

A significant share of respondents (23.7%) think that the government is fully responsible for ensuring that everyone is provided for, while 8.3% think that solely people are responsible to provide for themselves. Every fifth respondent has a neutral opinion on this matter. Almost one-fifth of respondents believe that salaries should be more balanced. Only 14.5% believe that larger income differences are necessary to better stimulate people to work.

Montenegrins believe that connections are more important for professional career than knowledge, skills and work experience. As a part of the EU integration process, Montenegro's state authorities implemented a series of measures strengthening the rule of law, transparency and accountability in all areas. Despite these measures, 45.5% of respondents believe that it is of vital importance to be well-connected with people in position of power in order to make progress in their lives and 46.2% find it to be important. These responses confirm that the personalised connections that were an integral part of the socialist value system continue to matter.

Chart 5.2: UNDP Survey 2011. How important is it in Montenegro to be closely connected with people in positions, who have the political power to help you make progress in your life?



Source: UNDP Quantitative research, 2011

As connections play such an important role in personal advancement, the importance of hard work, commitment and work ethic is downplayed. More than a quarter of respondents (27.5%) believe that working hard does not guarantee



personal success in life. Only 8% of respondents believe that if a man/woman works hard he/she will have a good life in the long-run.

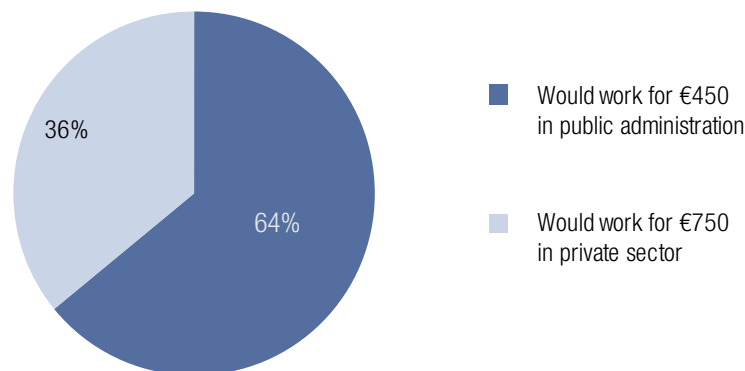
Respondents were asked to rank three sectors in which they would like their fourteen-year-old child to work. The first four choices made by the respondents include the following sectors: financial activities (17.7%), public administration and social security (10.7%), transport, storage and communication (9.0%) and manufacturing (8.7%).

Participants in employed focus group discussions both in Podgorica and Berane agreed that the term “a good job” does not only mean a job that is well paid (about €1,000), such as a job in state institutions, governing boards and boards of directors. Some participants indicated that it should be “a job that gives them personal satisfaction, advancement and improvement.”

UNDP Qualitative Study, 2011.

Montenegrins prefer being employed in the public sector with a lower salary than in the private sector. Many Montenegrins believe that being a civil servant is an excellent career choice as they enjoy substantial privileges. Almost two-thirds of respondents (64%) would prefer to work in the public administration for €450 than in the private sector for €750 salary per month (see Chart 5.3 below). In addition to deeply seated beliefs in the importance of personalised connections, these responses could be attributed to relative job security in the public sector and economic uncertainty that Montenegro is facing as a result of the global economic crisis.

Chart 5.3: UNDP Survey 2011. Public administration or private sector?



Source: UNDP Quantitative research, 2011

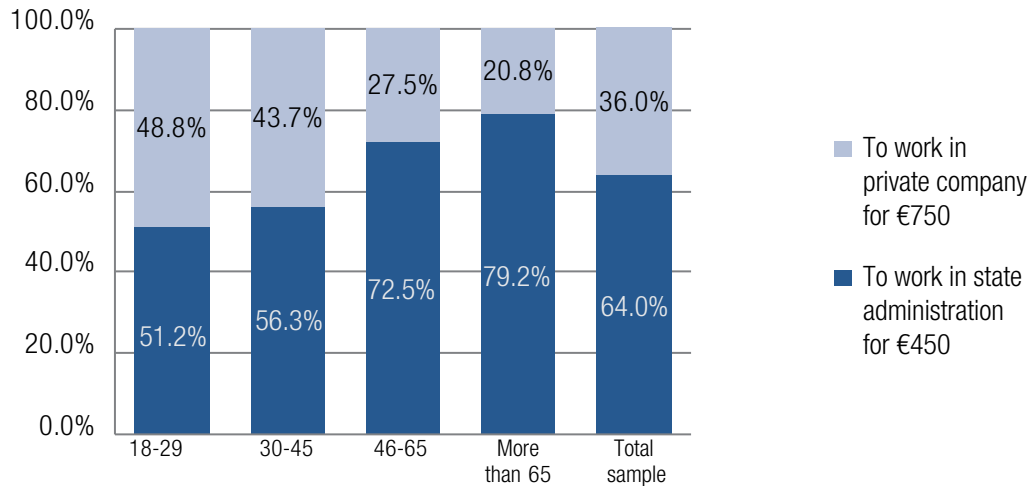
UNDP Quantitative research, 2011 shows that respondents appreciate the following advantages of working in the public institutions: non-working weekends, possibility for specialisations and further education, respecting collective agreements. According to them, private sector employers invest efforts to avoid such obligations. The main disadvantages of working in the private sector include: irregular and small salaries, as well as the fact that promotion is not necessarily linked to the work quality. Some underline that salaries in the private sector are higher compared to the public sector, which is seen as an advantage, which is, however, accompanied by stressful and insecure jobs, as well as a lack of free time, as well as the impossibility of adequate time management.

The preference for employment in the public sector is an indication that the culture of entrepreneurship and values of business innovation are not sufficiently integrated into the country's social capital. A more in-depth analysis demonstrates that those who are employed in the public sector are quite happy with what they have, as 78.6% of respondents who are employed in state administration prefer working for €450 in the public sector. Employees in the private sector are not that happy as 42.3% of them would prefer working in the public sector for €450 and 57.7% favour employment in the private sector.



The respondents aged 18-29 are almost equally split in their employment preferences between private and public sectors. As Montenegrins grow older, they prefer employment in the public sector more, so that only 27.5% of individuals who are 46-65 years old would like to work in a private company (see Chart 5.4 below).

Chart 5.4: UNDP Survey 2011. Public Administration or Private Sector: Generational Differences



Source: UNDP Quantitative research, 2011

The gender differences in employment preferences are insignificant and the majority of the unemployed (62.9%) prefer working in the public sector for €450 a month. The residents of the north predominantly prefer employment in the public sector (68.3%) while the residents of the southern region (41.7%) are more open to employment in the private sector.

The majority of participants in focus groups in response to the question whether they would prefer a state job with a salary of € 450, or private for € 750, pointed out that they would prefer a government job because it would provide a secure income. "It's nice to work in the public administration, in spite of low wages." On the other hand, they believe that "Montenegro does not have good private firms, except for mobile operators."

UNDP Qualitative Study 2011

There is a range of factors shaping our values and preferences with regard to employment. Our skills and knowledge may not be good enough for demanding private sector jobs and we may not be ready to learn and continuously educate ourselves and compete in the labour market. We often do not have sufficient entrepreneurship spirit and skills to take risks and assume multiple responsibilities. Other factors are limitations of the labour legislation and its poor enforcement, where employees' rights such as maternity leave are routinely violated by business owners. Employees of the private sector, even if they make higher salaries, may be stressed at work, face higher chances of being dismissed and may not enjoy benefits comparable to the public sector.

I worked in a company, which has experienced the transition from a public to a private company. It is much worse now than it was before, in terms of finances, disregard of the law and collective agreements. New employees accept the current conditions better, because they do not know the way it was before. But, the advantage is the flexibility of arrival and departure from work and good interpersonal relations.

UNDP Qualitative Study, 2011. Employed focus group in Berane.

The UNDP Survey 2011 finds that those who prefer employment in the private sector are more satisfied with their lives in all dimensions than those who favour public sector employment (see Table 5.4 below).

Table 5.4: UNDP Survey 2011. Life satisfaction of those respondents who prefer employment in the public sector for €450 per month versus those who would choose working in the private sector for a € 750 per month salary.

Satisfaction with:	for €450 in the public sector	for €750 in the private sector
% share in total sample	64%	36%
Satisfaction with:		
Life in general	5.95	6.58
Education	6.03	6.75
Job/work	6.66	6.92
Standard of living	4.18	5.15
Housing conditions	6.68	6.68
Family life	8.11	7.99
Health	7.15	7.98
Social life	8.01	8.23

(average score on a scale of 1-10 where 1 = very dissatisfied and 10 = very satisfied)

Source: UNDP Quantitative research, 2011

Social partners on the phenomenon “450 vs. 750”

When asked to give a comment concerning the phenomenon “€450 in the public rather than €750 in the private sector”, social partners offered different views about the possible causes of this attitude of Montenegrin citizens. **The Association of Free Trade Unions of Montenegro (AFTUM)** believes that “working conditions in a large number of private enterprises in Montenegro are extremely poor when viewed from the perspective of labour rights. Fixed-term labour contracts bring a particular problem which results in economic and social uncertainty for employees. On the other hand, labour rights are fully respected in the public sector and labour contracts are stable.” The opinion of **the Union of Free Trade unions of Montenegro (UFTUM)** is similar as they believe that valid legal regulations governing labour and collective agreement are complied with in the public sector, that there is a greater chance of keeping one’s job and receiving a regular salary, which also includes the possibility for an employee to take a loan and plan existence in the long run.” The quality of social dialogue between trade unions and employers is particularly important, which is not the case in the private sector in which there is oftentimes a ban on organising trade unions in some private enterprises.

The employers’ opinion is quite the opposite, as they place emphasis on “slowness of the state administration which does not demand initiative and entrepreneurship from an individual, but instead it demands conformity to the bureaucratic structure. Moreover, it is much easier to find a job in the state administration since the eyes of private enterprises are on employees’ skills, knowledge and competences, as well as on their ability to contribute to the improvement of the enterprise, while that is not the case in the state apparatus” (**The Employers’ Federation of Montenegro, EFMNE**). **The Chamber of Economy of Montenegro (CCMNE)** and **Montenegro Business Alliance (MBA)** agree that the impact of the past, when the young were raised to believe that the “right” job is one in the state administration and when there was a lack of confidence in private entrepreneurship, is still substantial. They believe it is necessary to engage in intensive promotion of the importance of entrepreneurship, particularly among young societal structures, and to promote self-employment instead of “waiting for a job”. MBA also highlights that a considerable number of citizens believe that employees in public administration also enjoy some other benefits, which are not of a monetary nature, but still result in an increase in this “€450”. This refers primarily to the use of official vehicles and phones for private purposes and business trips which oftentimes supplement the average salary of employees in state administration, particularly at the management level.

Source: Direct communication with social partners’ representatives – UNDP 2012

Montenegrins realise that corruption is damaging, yet they accept it as a part of their everyday lives. Corruption is often perceived as “rational” behaviour, and shame comes only when a person is caught. The fight against corruption is highly positioned on the Government’s agenda. The European Commission’s Montenegro 2012 Progress Report specifies that some progress has been made on prevention and in the fight against corruption, but it emphasises that further efforts



need to be undertaken. Regularly conducted public surveys confirm that corruption is a widespread phenomenon.¹⁴⁹ The overwhelming majority (90%) of Montenegrins perceive corruption as damaging, which is an indication that positive values dominate in the social capital.

Participants in the UNDP focus groups indicated that the main advantages of working in state institutions are free weekends, the possibility of training and education and respect for collective agreements. Key limitations include low wages and that career advancement does not depend on the quality of work. The advantage of working in private companies is higher incomes, while key limitations are high stressfulness, uncertainty of jobs, little free time and working hours cannot be planned.

UNDP Qualitative Study, 2011

Corruption hurts the poor disproportionately and hinders human development by reducing access to social services and diverting resources away from investments in infrastructure, institutions and social services. Corruption also undermines democracy and the rule of law, leads to violations of human rights, distorts markets, erodes quality of life and allows organised crime, terrorism and other threats to human security to flourish.

Even the language in use in a society could tell the story about its values and social capital. The syntagm “he managed” is the key definition when people define how an individual improved his economic welfare. It comes in first place, before hard work, good education, skills, professionalism or expertise, work ethics, diligence and commitment, or possible inheritance, to explain the origin of a transition-businessman’s wealth. It replaces all these values, and implies different “skills”: to be connected with policy makers and ruling parties, to avoid legal steps in business registration and operation, to cheat and to skip. “Managing” does not mean rewards based on merits or participation in a fair market game where everybody plays according to the same rules with approximately the same or similar opportunities. “He managed” is, as well, the diagnosis of the consequences of war events in the region, of economic sanctions and painful transition. It does not include lifelong learning and additional investments into new knowledge and skills necessary in the continuously changing labour market. It is the diagnosis of strong informal “black” ties, based on corruption and nepotism.

UNDP Qualitative Study 2011

The social reality is different from our values, however, and citizens are still inclined to justify gifts or giving money in many areas of life. Giving gifts is the most common practice in health care as 22.7% of respondents of UNDP Survey 2011 find it acceptable. It is acceptable in other areas of life as well: in interactions with traffic police (11.5%), for the purpose of getting official/individual identification papers (7.8%), building or business permits (10.4%), for career advancement (7.8%), secondary school or university enrolment (9.3%), for exercising rights to social/disability benefits (7.6%) or for processing a court case (7.6%). More than 13% of respondents believe that offering money or a gift is acceptable in order to get a job. This is a confirmation of the widely acknowledged importance of connections for success in life.

Montenegrins have a strong desire for “social justice” but they know that the social reality is different and they have to follow the existing widely accepted rules of behaviour. This is confirmed by the fact that the shares of respondents condemning corruption and acknowledging significance of connections are almost the same. The social capital in Montenegro has not yet become a good tissue that unifies shared values, norms and institutions.¹⁵⁰

Montenegrins have some traditional values that may not always support human capital development.

One quarter of respondents believe that competition is good as it stimulates people to work hard, to develop and promote new ideas and become more active in making own choices. When it comes to willingness to pursue training and other job opportunities, citizens’ mobility is low as almost a quarter of respondents believe that changing jobs is inappropriate, and almost 40% believe that it should be done once or twice through a lifetime.

¹⁴⁹ For more details see: Assessment of Integrity and Capacity of Local Authorities in Montenegro-Survey Results - UNDP, Podgorica, May 2009

¹⁵⁰ Narayan, Deepa (1999) “Bonds and Bridges: Social Capital and Poverty” Policy Research Working Paper 2167, Poverty Reduction and Economic Management Network, Washington, D.C.: The World Bank.

The social norms and values of Montenegrins have been revealed in respondents' views on values that should be nurtured in children. According to the respondents' opinions, the following values are desirable to be developed in children, in respective order from the most important to the least important: responsibility, independence, diligence, persistence, adroitness, as well as honour and honesty. The society does not favour the values typical for the authoritarian regime such as piety and obedience. At the same time some values critical to effective social capital development that are necessary for a democratic country with a free-market economy are not prioritised as well. Only relatively small numbers of respondents believe that unselfishness, enterprising, self-respect and self-confidence are desirable to be developed in children (see Chart 5.5 below).

Chart 5.5: UNDP Survey 2011. Which of the following values do you think are desirable to be developed in children?



Note: Respondents had the possibility to choose up to 5 answers

Source: UNDP Quantitative study, 2011

What are Our Current Social Networks?

Montenegro's social capital includes dense informal networks and some of them violate the rule of law and foster corruption and organised crime. The introduction of a market economy in to an environment of ethnic conflicts, wars and transition was not accompanied by establishing accountability and transparency mechanisms introducing equal rules for everyone. As a result, the population believes that their interests and aspirations are not well represented by political actors, which undermines people's trust in political institutions. The unchanged, twenty-three-year rule of one political coalition has contributed to petrification of the networks created within it, thus significantly reducing the level of trust and contributing to citizen passivity. It is very concerning that almost half (48.5%) of the respondents¹⁵¹ believes that the fact that one works hard, does not necessarily mean one will succeed in life - as they believe that success in life is rather a matter of luck and good connections. Thus, nine out of ten citizens (91.7%) believe that for making progress in life it is important to be well connected with people in high positions or people with political power. Many citizens do not believe that their voice or actions count. As Montenegrin citizens do not see that they can impact decision making through formal institutions, they tend to rely on their personalised networks.

At the individual level, Montenegrins value family relations and strongly rely on their networks of family members and friends. Although a majority of respondents tend to mistrust people (64% of respondents), the overwhelming majority of respondents (89.7%) declared that they have close friends. More than 43% are very happy with their family

151 UNDP Quantitative study on Human Capital, 2011



life, and 67% of respondents highly rate their family life. In summary, a Montenegrin citizen turns to the smallest social groups that help him or her to address various issues and concerns.

Participants in focus groups believe in friendship and emphasise that they spend a lot of time with friends and some of them have friends with whom they have socialised since childhood.

UNDP Qualitative Study, 2011

The research indicates that if family as well as friendship and ethnic ties dominate among people from minority social groups, they have fewer opportunities for both employment and development of their capacities, not necessarily because of discrimination, but because of lack of information and other reasons.¹⁵² There are surveys that show that a high level of trust within family is positively correlated with a low level of trust in persons outside of the family. This makes the circulation of ideas, information and resources between groups more difficult and can contribute to economic, social and political divisions in the society, which has a negative impact on the growth of social capital.

In Montenegro, very strong family and “even tribal” relations dominate. Dense networks of informal ties and personalised exchanges are very common at all levels of society. Personal contacts, kinship relations and other non-economic factors fuse political, social and economic power. In the field of employment, personalised connections often continue to matter more than expertise or experience. In some small towns, for instance, elected politicians hire relatives such as husbands or wives, brothers and sisters for key positions in city administration. Such practices not only violate the existing conflict of interest rules but undermine social capital, fuelling a common belief that connections are the only thing that matters for career advancement.

These kinship relations and practices of formal and often informal networking create a pool of people that can be expected to be of use when issues arise in the lives of an individual. Normal life also includes different difficult situations that the individual alone cannot solve. He or she relies to a considerable extent on the social network for economic survival and protection, but the biggest challenge that has to be resolved is to make sure that this social capital is not used extensively as channels of power and influence in achieving private goals that violate the existing rules and norms. Wide horizontal social networks founded on principles of trust and rule of law are underdeveloped in Montenegro, which limits the country’s social capital. As a result, “productive” social capital is often replaced by a “distorted” one, which is the source of corruption, nepotism and other similar phenomena. This weakens trust and undermines impartiality and efficiency of public institutions.¹⁵³

At the levels of community and society, Montenegrins do not believe in their own and collective abilities to influence decision making, which is why their levels of participation in non-governmental organisations, associations, clubs and other forms of civil society are relatively low. The values of patriotism, collective action for the public good, volunteerism and feelings of a community where everybody should help each other that dominated socialist Yugoslavia disappeared during the transition. These values were replaced by private interests and associated values of individualism. Unwillingness to engage into any form of collective action slowly spilled over to other spheres, undermining communities’ sustainable development.

Lidija Leovac sent her savings to a single mother that was employed in a company facing bankruptcy, after the desperate woman threatened to commit suicide. People from her environment called her act “foolish.” However, in 2009, Lydia was awarded the special award for philanthropy from the Foundation for Active Citizenship (fAKT). At first, Lidia refused to accept the award, arguing that it was a very private matter, but she eventually agreed, after much persuasion. When she was awarded in Cetinje, she said she was happy since it was the proof that “I am not crazy, but perhaps just good, and that I can be a good example for other women, housewives and people with good will and show to all of them that they do not need to own a business or have enough money or possess material wealth to be able to help someone.”

Source: http://www.nvfcanokoprivica.org/docs/Dobri_ljudi_2009.pdf
<http://faktcg.org/files/lzvjestaj2009.pdf>

152 In theory social ties are divided into strong (family and friendship ties) and weak (business ties). While individuals connected by strong ties have a stronger motivation to help, it is considered that the weak ties provide us with useful information and access to them. (Granovetter, Mark. 1973. “The Strength of Weak Ties”. *American Journal of Sociology*)

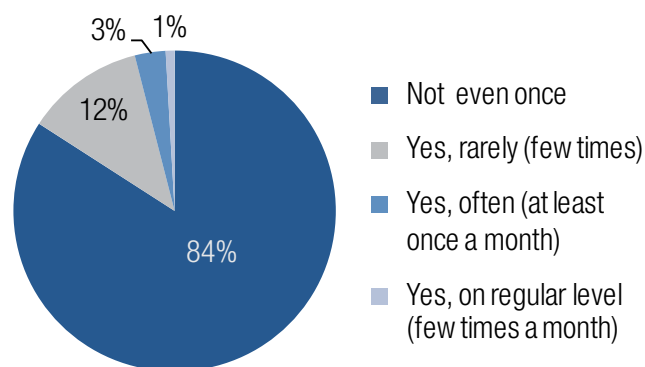
153 Schleifer, A. and Vishney, R (1993) “Corruption” *Quarterly Journal of Economics*, 108:599 -617

Montenegrins act collectively only in moments of great disasters and other misfortunes such as the floods in Zeta and the railway accident in Bioče. There have been only a few civil actions that united citizens to act together, and one of them was the campaign against the construction of a hydro-electric power dam on the River Tara. Local residents identified a number of potential negative impacts associated with the development of this community resource and made sure that their voices were heard by decision makers.

Although the vertical linkages connecting decision makers and citizens are of extreme importance, horizontal networks are crucially important for effective social capital formation and utilisation. Those societies that have extensive horizontal networks, based on trust and common values, have higher rates of public participation in voluntary organisations and associations. Horizontal networks also contribute to the overcoming of social divisions (religious, ethnic, social and economic) and they usually come with more successful public administrations and better performing economies. Unfortunately, the vertical linkages still dominate in Montenegro, which limits the flow of ideas and reduces the feeling of community and contributes to suspicion and mistrust of citizens.¹⁵⁴

The data on membership in voluntary associations, which is a good indicator of the country's social capital, indicates that only a negligible number of Montenegrin citizens participate in civil society organisations.¹⁵⁵ Only 2% of UNDP Survey 2011 respondents are members of artistic, cultural, musical or educational or scientific organisations and less than 1% are not members but participate. More than 90% of respondents are not members and do not participate in political parties. Participation in unions is also quite low: among potential union members only 2.3% are union members and actively participate. Participation in environmental organisations is even lower: less than 1% are members and actively participate and almost 5% are not members but participate. A relatively high proportion of respondents are involved in church and religious organisations: more than 9% participate and 2.5% are members and actively participate. Montenegrins are also involved in charitable organisations with 1.3% of respondents as active members and 7.4% of respondents who are not members but actively participate. The young are the most active group and 12% of young survey respondents are members and actively participate in student organisations, while 13% are not members but actively participate. Almost 11% of retired respondents are members and actively participate in pensioners and veterans associations, while 6.5% are not members but actively participate. The most popular social activity is, however, participation in social networks (e.g. Facebook) where 22% of respondents are members and actively participate. Only 16% of respondents were involved in volunteer work, which is an indication of a relatively low level of social capital in the community (see Chart 5.6 below).

Chart 5.6: UNDP Survey 2011. Were you involved in any kind of volunteer work within some organisation, association or religious group last year?



Source: UNDP Quantitative research, 2011

¹⁵⁴ Analyzing Social Capital in Context, World Bank Institute, Washington, D.C. 2006, See also: Putnam, Robert with Robert Leonardi and Raffaella Nanetti. 1993. *Making Democracy Work: Civic Traditions in Modern Italy*. Princeton, N.J.: Princeton University Press.

¹⁵⁵ There is certainly more than one reason for non-participation, starting with the simplest possibility that people have no time due to the poor economic situation, to the fact that Montenegro still has problems with the functioning of independent media and establishment of stable democratic institutions.



In the last few decades, the social values of volunteerism and philanthropy have been encouraged in Montenegro mostly by the non-government sector at the individual, local or corporate level.¹⁵⁶ This, however, is not sufficient to instil the values of volunteerism so that the citizens are willing to regularly volunteer in their communities.

In the early 1990s, in the multi-party environment, the civil sector expanded dramatically but it has remained weak and poorly structured. Although the number of NGOs is increasing, the number of people participating in NGOs is relatively low. Despite these limitations of the third sector, NGOs are becoming a source of vital experience, expertise and information that strengthen horizontal social networks. NGOs are involved, to a different extent, in government decision-making at the national and local levels. There are some positive developments at the local level where the NGOs representing various socially vulnerable groups, such as persons with disabilities, conduct effective fund-raising campaigns, deliver some services to their target groups and work with local governments.

Do we Trust Our Fellow Citizens?

Montenegrins have low levels of trust in their fellow citizens. Trust is an important component of social capital that reflects personal lifelong experiences. Transitional processes in Montenegro damaged the trust among the members of the community. More than 64% of respondents think that these days, generally speaking, people cannot be trusted.

Table 5.5: UNDP 2011 Survey. Can you single out anyone who you would not like to be your neighbour?

	%
Addicts and drug addicts	24.2
Sexual minorities (homosexuals, etc.)	17.6
Former prisoners	13.7
Former drug addicts, addicts	13.0
People living with HIV	9.8
Nouveau riche (upstarts)	7.2
Immigrants/foreigners with jobs/business in Montenegro (the Chinese, Russians, etc.)	2.2
Police officers	1.9
Co-workers	1.6
People who belong to other ethnic and religious groups	1.5
Family/relatives	1.3
Internally displaced persons, refugees	1.1
The poor, beneficiaries of social welfare benefits	1.0
Single parent family i.e. mother or father with illegitimate children	0.8
Supporters/members of political parties opposed to the party that you belong to or support	0.8
People who belong to your ethnic and religious group	0.7
People with disabilities	0.7
Unmarried couples who live together	0.6
Close friends	0.4
Total	100.0

Note: From a list of 19 answers, respondents were asked to select up to five answers. The values in the table show the percentage of total responses.

Source: UNDP Quantitative research, 2011

As a rule, we trust people whom we can lend our money. In response to a question "If you urgently needed to borrow €500 - who would you ask it from?", 20.6% of respondents either do not know or have nobody to borrow €500 from,

¹⁵⁶ For five years ADP "ZID" has been awarding an annual award for volunteerism and for three years "fAKT" has been awarding the award "Iskra" for philanthropy.

while 40% would borrow from a family member.¹⁵⁷ An individual will help if he or she believes that they will be helped in a similar situation. The principle of reciprocity is a foundation of many social norms that help building horizontal networks.

According to the EBRD study, the level of general trust in people has risen in Montenegro sharply since 2006. About 40% of respondents trust other people. It compares favourably with the transition region, and is close to the level prevailing in the Western European comparator countries.¹⁵⁸ There are some socially excluded groups whom we do not trust and do not want to be our neighbours. The majority of UNDP Survey 2011 respondents would not like to live close to drug addicts, followed by homosexuals, former prisoners, then former drug addicts and people living with HIV (see Table 5.5 above). A relatively good indicator of country's social capital is that, after the period of wars, ethnic tensions, displacements and transition, there is only a small number of people who would not like to live near people of different ethnicity or religion, persons with disabilities or people of different political affiliation, poor and social cases, displaced persons or immigrants.

Montenegrians' trust in public institutions has increased over the last years.

The wars in the 1990s, economic reforms and the process of privatisation, the inability (or unwillingness in some cases) of the state to enforce new rule of law contributed to an expansion of crime, and particularly of organised crime and serious corruption that undermined public trust in state institutions. For example, unsustainable construction did not comply with the law and was widespread in regions attractive for tourism. Most of the construction industry workforce came from abroad and often did not pay the necessary taxes.

Over the last few years, however, the trust in institutions has improved and compares favourably with Western countries. Over two-fifths of the respondents of the EBRD survey favourably ranked the performance of the national government, while around one-fifth say that its performance has improved in the past three years.¹⁵⁹ The highest level of trust is enjoyed by religious institutions, followed by banks and the financial system. Political parties and trade unions have a relatively low level of confidence.

Building the Social Capital of Montenegro: Looking into the Future

The available research confirms the importance of going beyond education and health to promote human capital development. A wide range of factors explains differences in human capital creation and utilisation where differences in social infrastructure across countries play a big role.¹⁶⁰ Such social infrastructure includes the institutions and government policies that shape the economic environment, within which individuals accumulate skills and firms operate. Lack of a social infrastructure conducive to effective human capital creation and utilisation causes loss in production and eventually limits human development opportunities for all.

This chapter has demonstrated that social capital is critically important for effective human capital formation and utilisation in Montenegro. It is therefore important for Montenegrin policy makers and society in general to design and implement concerted actions at the level of the country, communities and individuals to contribute to developing modern values, norms, relations of trust and horizontal networks nurturing development of social capital. The areas of actions outlined below could be addressed under the broader umbrella of the EU integration process.

Strengthen national level social capital through building trust and confidence in state institutions. The Government has to implement a range of interventions strengthening the rule of law, transparency, accountability and public trust in state institutions. The public believes that the problems of corruption, nepotism, favouritism, partiality, ineffectiveness and inefficiency continue to persist. To build public trust and expand social networks, democratic mechanisms that would subject bureaucracy to effective democratic public control should be expanded. For example, all Montenegrians should be

¹⁵⁷ UNDP Montenegro. 2009. *National Human Development Report 2009. Montenegro: Society for All*.

¹⁵⁸ European Bank for Reconstruction and Development. 2011. *Life in Transition: After the Crisis. Montenegro*.

¹⁵⁹ European Bank for Reconstruction and Development. 2011. *Life in Transition: After the Crisis. Montenegro*.

¹⁶⁰ Hall, R. E. & Jones, C. I. 1999. "Why do some countries produce much more output per worker than others?" *The Quarterly Journal of Economics* 114 (1), 83-116.



aware of the current freedom of information legislation and encouraged to use it. It will take time to build public trust, therefore universal transparency of the Government's actions should be endorsed with a very few exceptions such as national security issues. Citizens have to know how decisions are made and be able to request any desired information from any government office. The awareness building campaigns should inform the general public of the current freedom of information legislation and citizens' rights. If requests for information become common practice, government officials would know that their actions could well be subjected to public review. All key segments of society will be empowered and realise that their voices and opinions matter.

The trust in state institutions can be built through extensive interactions between state officials and the public. The central and local authorities can contract NGOs to prepare studies on issues of special public interest including, for example, budget priorities, strategic plans for social and economic development, capital investment projects, land use plans, and plans for improved delivery of public services including, for example, water, transportation, and electricity. This engagement will encourage NGOs to build stronger social networks at the local level and empower individuals by ensuring that their voices and aspirations are heard and communicated to decision makers. Policy initiatives should be widely discussed through various venues such as public hearings to get citizen input. Although the Government of Montenegro has a good track record in conducting consultations and engaging the public in decision making and monitoring, these practices should be more consistent and a range of opportunities for citizens to engage in dialogue should be expanded.

More transparent human resources policies and procedures should be introduced by central and local state authorities to address widespread perceptions of corruption and patronage. A professional, merit-based and neutral civil service could be promoted through the adoption of performance management based systems that promote objective criteria in hiring and promotion. Human resources functions at the central level can be centralised by the Government to ensure politically neutral human resources (HR) decision-making, which served as a starting point for establishing the Human Resources Management Authority. Such elements as recruitment/staffing, hiring, position classification, compensation, performance evaluation, leaves of absence, working conditions, discipline, staff learning and development could be codified and posted on the Government's web-site. Although centralised HR functions are associated with rigidity, complexity and slowness and unresponsiveness to changing HR needs, the Government could utilise this approach to build public trust and confidence in state institutions.

The expansion of e-government may also make a positive contribution to building trust in government. If citizens have positive impressions of their e-government experiences, it will contribute to building trust in government. Such characteristics of e-government strategies as efficiency, transparency, and interactivity can directly affect e-government satisfaction and improve trust.

The media can play a more active role in building social capital and facilitating collaboration of citizens and decision makers. The media has become an increasingly effective tool for social change. It is a catalyst to change minds, encourage citizens to be more proactive in promoting their social values, defending their interests and views in interacting with the authorities and building communities. Time spent reading newspapers and watching public affairs on television can help citizens to make better informed choices and participate in political life. The media can create and reenergise social movements and engage citizens in social issues through quality and evidence-based public debate on topics important for the community.

In Montenegro, the media often create the impression that there are powerful and invincible interest groups that do not care about the country's sustainable development and are guided solely by their own, short-term economic interests. Is it so or is it mostly a result of the media's desire to seek sensations? Does the depiction of social reality on TV inform our beliefs that the world is a mean place and nobody can be trusted? Does the media have the necessary capacity and skills to conduct thorough investigations and focus on areas that are critically important for a country's human development? Given the importance of the media to social capital formation and the country's human development, it is necessary to explore in depth how the media can be supported to play its important social role. The media should collaborate with the Government, business sector, NGOs, and schools to promote local development.

As we are so actively participating in social networking, online media should be utilised also to empower many community members to participate actively in community development. Community news can be shared and community discussions



supported on Facebook and Twitter. Socially excluded groups should be provided with the necessary skills and supports to present their point of view through social media as well.

Strengthen civil society and promote the values of volunteerism.

There is a good legal framework in place, with the necessary mechanisms and processes to promote development of civil society. Civil society development in the long-run requires sustainable functioning of the economic system, thus ensuring welfare of individuals. Economic uncertainty, the political and social challenges of the transition period and deterioration of the country's social capital limited the prospects for civil society development.

The third sector and culture of volunteerism can be supported by making donations to charities tax-deductible expenses. These donations will reduce taxable income and lower the individual's tax bill and will make individuals more extensively involved in community affairs. A clear set of rules regarding registered charities should be defined to ensure that they operate exclusively for charitable purposes (i.e. the relief of poverty, the advancement of education or other purposes that benefit the community) and that they must devote their resources to charitable activities.

In addition to building NGOs' capacity to address nationwide concerns, there is a persistent need to develop the capacities of these organisations to provide effective and sustainable solutions to address the needs of their members and groups they serve and to advocate their interest with the authorities. The involvement of NGOs may help to inform the Government on the implications of its policies and programmes and identify priority areas for intervention. NGOs could develop skills of how to analyse, probe and monitor decisions about public expenditure and investment. They could also be involved in monitoring the quality of publicly provided goods and services and their impact or even deliver some programmes themselves.

The education system should promote positive social values and a culture of participation in community life.

Courses on civic education, citizenship and EU should become more community-level-focused and encourage children to explore how national policies and local programmes directly influence their community and the people they know. Students should be provided with multiple opportunities to practice socially responsible behaviour in multiple settings. Contrary to popular belief, children care a lot about politics and community life and should be encouraged to put their ideas into actions. Topics for discussion include the future of Montenegro, environmental concerns, education and how it should change to serve the needs of the 21st century. Students may be brought to a city council meeting or participate in others important for communities events. Schools should seek volunteer opportunities in the community and encourage students to volunteer.

Conclusions

We are social creatures and our satisfaction with life depends on our social capital, which is shaped by our values and personal relationships. Social networks provide the necessary material and emotional support in times of need, as well as access to jobs and other opportunities. As this chapter demonstrates, social capital influences our country's human capital. We have to improve our social connections and promote positive social values that will generate trust in other people, facilitate exchanges of information and strengthen our capacities to live and work in the 21st century.

We explored different dimensions and captured some indicators of social capital in Montenegro. Measuring social capital and assessing its role and impact on the country's human capital is challenging as people's lives are made of multiple social connections that vary in context and intensity. We interact with family, friends, neighbours, colleagues, clients and managers and do so by mail, telephone, the Internet and through direct contact. We have diverse values that may or may not reflect the realities of the 21st century and our country's European ambitions. This chapter welcomes us to open a very important discussion on our values, relations of trust and social networks and decide for ourselves if we are happy with them and what can be done to ensure that our country's social capital makes a positive contribution to our human capital and development that benefits all.



Chapter 6

Conclusions and Recommendations

Human Capital and Human Development

Increased global competition means that Montenegro will not be able to compete on cost and price, and as all European countries will have to offer high-quality products and services. This is achievable only if the country's human capital improves. A well-educated and trained population is an objective in itself as well as a crucial factor contributing to accelerated social and economic and ultimately human development.

Human capital plays a crucial role in pursuing objectives of human development. Human development is about expanding people's choices. These choices are diverse but the most fundamental are the choices to lead a long and healthy life, to be educated and to enjoy a decent standard of living. Other choices may include freedom of expression, association and movement as well as social justice and protection against discrimination based on racial, religious or ethnic origins, and the ability to influence decision-making and contribute to the society's life.

Human capital is Montenegro's largest resource. This resource, depending on the number of citizens, can increase very quickly.

UNDP Qualitative Study 2011. In-depth interview - the Montenegro Business Alliance

At the societal level, human capital development results in the increased ability of a country to absorb modern technology, improved quality and productivity of the workforce, which invariably leads to increased productivity and economic growth that are fundamentally important for human development. At the individual level, it is the key to a successful career in a modern knowledge-intensive economy. Improved individuals' skills and knowledge have become increasingly important for personal human development as they help to fulfil individual needs and aspirations, maintain social networks, pursue healthy life choices and achieve a wide range of other goals. Economic growth achieved through improved HC not only results in increased household disposable incomes but increases budget revenues that can be allocated for important social sector priorities that expand human development opportunities for all.

Human capital creation should become a strategic priority of society. The government and private sector should strategically invest in human capital development that will create new jobs, develop new skills and competencies and can help Montenegrins work and live happily in Europe in the 21st century. Our success, today and tomorrow, and human development depends on the quality of our human capital, our skills and productivity. The right skills and the ability to work together are the key to moving us towards prosperity. In addition to building the right knowledge and skills we have to create cohesive social capital so that everyone will feel included and will positively contribute to the country's growth, irrespective of their background, nationality or education.

Where do you see yourself in 2030?

I am in Norway, primarily because the standard [of living] is higher, the law is obeyed and there are no 'connections'.

UNDP Qualitative Study 2011. Students from Niksic, focus group discussion

Transition and its Impact on Human Capital in Montenegro

Before the start of the transition process, health, education and other sectors shaping human capital in Montenegro performed reasonably well and served the existing political and economic regime. Economic transition, the conflicts and an extensive period of uncertainty about the country's priorities have had a negative impact on human capital creation and utilisation.



People used to try harder at work. There were many researchers developing new technologies. There are still some [researchers] at certain companies, but the workers at public companies are the most relaxed and they easily take leave during working hours or leave earlier.

UNDP Qualitative Study 2011. In-depth interview, the Association of Pensioners

An NGO Tourist Forum devoted one discussion to connecting tourism opportunities and agriculture in Montenegro, taking in to consideration the kind of workforce such connection would require. As a small country, Montenegro does not have a potential for significant export, and this is true for agriculture as well, but targeted marketing of Montenegrin products to tourists would increase the country's financial and human capital. One of the famous to-quality luxury brands of wine – Plantations July 13 – is produced in small quantities. It is a part of Montenegro's uniqueness and is attractive to tourists. At this discussion all the authentic rural products from Montenegro that can be marketed to tourists were identified, such as the traditional kinds of cheese, cream, ham and the like. To make these intersectoral connections work, a better educated workforce as well as investments in development and research are needed.

Source: <http://turistickiforum.me/info/saopstenja>

The proportion of GDP allocated to policies fostering human capital development was increasing but could not ensure sufficient incomes of teachers, doctors, and other professionals critical to human capital creation and the utilisation and existence of the necessary infrastructure. The shift from the planned to the market economy undermined universal access to basic education and health services fundamental to human capital.

The transition and global economic developments resulted in growing sectoral skill mismatches and a decline in the availability and accessibility of healthcare and education. Many teachers found themselves unprepared to teach knowledge and skills in such areas as ICT and the market economy. In addition, the country had to deal with unfavourable demographic trends such as an ageing population and decreasing fertility rates and the economic and social hardships of transition. Transition negatively affected the social system of values and relations of trust and resulted in growing stratification of the society, loss of social security of citizens, widespread corruption, crime and the grey economy. To overcome these challenges and ensure that Montenegro is competitive in the 21st century, a series of the measures supporting development of country's human capital should be implemented.

Montenegro has adopted many laws, policies and other interventions focusing on human capital development that are aligned in principle with EU approaches to HC, including the Lisbon Strategy. The strategies emphasize the goals of building in Montenegro a knowledgeable society, a flexible, competitive and efficient working force through the educational system, including vocational education.

Some specific challenges that could be addressed through effective strategies and policies of human capital development include:

- skill mismatches between those employed in declining sectors and the demands of growing sectors;
- mismatch between current human capital competencies and skills and those needed for the 21st century
- low labour productivity;
- low readiness of society to meet the challenges of globalisation and EU integration;
- low participation of socially excluded groups in the country's HC;
- significant regional differences in economic and social development;
- inequities in access to healthcare, education and social services; and
- limited readiness of the population to live and work in an ecological state.

I think enrollment at the faculties of economics and law should be drastically reduced for the next 10 years.

Source: UNDP Qualitative Study 2011 Teachers Focus Group Discussion



Core Findings and Recommendations

Human capital is very difficult to measure and it cannot be reduced to such core components as educational attainment, life expectancy and the skills of the population. Quantification of some components of human capital such as the population's skills, innovativeness and entrepreneurial abilities is problematic. Some elements of social capital such as levels of trust in society and networks that are critically important to effective human capital development and utilisation are even more difficult to measure.

The economic growth is insufficient to ensure effective HC development and utilisation, and such social issues affecting HC as high unemployment, low participation rates, falling birth rates, ageing populations, severe poverty, and migration of many young and skilled people have to be addressed.

Montenegro can hardly provide a better standard for young people with this kind of economy. It is hard to predict how the young people will manage when they get older. Most young people will not be able to solve the problem of living space, get married or form families, so that in 30 years Montenegro will be an old country, with a large number of old people.

UNDP Qualitative Study 2011 Employed in Berane and Podgorica, focus group discussion

However, there are no universal human capital development policies that can be applied in all countries even in one region. We have to build consensus on our priorities for HC that will take into consideration our national history, values, and culture. In addition, it is important not only to develop priorities and solutions that are appropriate to our country's conditions, but we have to rely on sufficient information and strong analytical tools to monitor if our goals have been met.

As Montenegro moves closer to EU membership, its reforms in the areas affecting human capital creation and utilisation should be well aligned with the EU agenda and expectations. It is an essential condition for the success of Montenegro's integration in Europe.

Numerous factors contribute to human capital creation and utilisation. High levels of human capital is not merely a product of effective education and health sector policies, but to a large extent is determined by living conditions, governance structures, social capital and other societal and economic factors that are influenced by policies and actions beyond the traditional education and health sectors. In the context of increasing interdependence and multidimensionality of policies supporting human capital, effective collaboration of various sectors is required. The human capital of Montenegro can be enhanced when a joined-up strategic approach with cross-cutting objectives that promotes joint working arrangements of all relevant sectors is adopted.

Strategic planning involves framework-setting and defining the principles of interplay of sector-specific policies and interventions supporting HC. The processes of strategic planning in the area of human capital are not well established in Montenegro. These limited capacities undermine the country's ability to properly identify the existing problems and obstacles to effective human capital creation and utilisation and effectively address them.

The process of development of HC strategy should include all stakeholders. As non-governmental actors are not equal in terms of power and abilities to influence policies and strategies development, every effort has to be made to ensure that the voices of all stakeholders are heard.

Once developed, the strategic plan should be translated into an operational plan that includes specific activities, which might cover a whole range of operations involved in creation and maintenance of human capital, including the allocation of budgets and resources, the organisation of services and the provision of staff, facilities and equipment. It is particularly important to develop policies, programmes and supports targeting people whose potential is untapped and knowledge and skills underutilised.

To improve strategic focus on HC it is advisable to establish a forum for interchanging knowledge and ideas among policymakers, academic institutions, teachers and medical professionals so that they will share their views and ideas on how to build effective human capital. Once these ideas are captured and analysed, they can be translated into specific



laws, policies, programmes and projects. The forum can help in particular in addressing a range of factors that impede development and implementation of strategic policies addressing HC such as poor horizontal coordination, absence of lead ministries responsible for human capital, a shortage of trained personnel, ineffective coordination between national and local levels that makes reaching target groups difficult; and weak utilisation of partnerships with non-governmental organisations. It may be also beneficial to establish a cross-ministry steering committee responsible for development of cross-ministerial policies supporting HC.

Partnerships to promote HC development can work if there are effective democratic institutions and practices, and individuals are empowered to participate in decision making. Individuals, through democratic institutions, can identify the most important priorities for human capital development, develop interventions to address them and implement them in the most efficient manner.

Sectoral Findings and Recommendations

Strategic and Cross-sectoral Approach to Human Capital

Longer lifespans, rapid innovation, increasing international competitiveness require extensive investments, targeted policies and programmes to improve the quality and durability of human capital. This Report argues that human capital cannot be enhanced through increased budget allocation for education and health sectors and more complex approaches are needed. Structures, laws, policies, instruments, programmes and projects across employment, health, education and other sectors should be aligned to achieve maximum impact on human capital. Some examples of sectoral policies are provided below.

Education and Human Capital

Deep changes in demographics, labour market trends, new technologies, transitional processes and EU membership aspirations have made education reform inevitable. Important progress has been made in such areas as curriculum reform, but serious challenges preventing effective human capital creation remain.

Montenegro has a well-educated population, but the general levels of education are lower than in EU countries. The education system continues to produce graduates with skills that are poorly aligned with labour market demands. RAE and children with special educational needs face barriers in accessing education that limit their ability to contribute to the country's HC.

The education sector continues to suffer from underinvestment. Most of the investments are used to pay teachers' salaries and to cover recurrent costs. The resources devoted to school equipment that is crucial in building skills in new technologies remain low.

Everything comes down to reading the material, the professor chooses a student to read a unit and that's it. I don't think I gained considerable knowledge in college, I already knew those things before, I only learned a few words. I could conduct a class in a three-year vocational school in English.

UNDP Qualitative Study 2011. Students from Niksic, focus group discussion

Increased funding cannot resolve all the problems and align the education sector roles with the needs of human capital creation and utilisation in Montenegro. More systemic and strategic reforms are needed. Core recommended strategies include:

- Customise pre-school service delivery models to meet specific needs of regions, municipalities and communities, particularly for employed parents.



- Create favourable conditions to increase the number of licensed pre-school private providers.
- Increase the awareness of the public about the importance of early development and learning.
- Improve early identification, programming and supports for students with disabilities. There is no official data on the number of children with disabilities, and the system does not recognise them until they enrol at primary school. Limited numbers of special education experts make it difficult to improve early learning of children with disabilities.
- Expand supports aimed at avoiding institutionalisation of children without parental care.
- Introduce safeguards to reduce and eventually eliminate out-of-pocket payments and corruption, mostly through private lessons. In contravention of the existing laws, this practice causes unequal access to education for children from poorer financial and social backgrounds.
- Devolve more authority to schools and transfer some responsibilities to parents, teachers and principals. Such governance reforms can change incentives and promote focus on students' outcomes.
- Since the number of drop-outs is the highest in the secondary vocational education, measures should be undertaken to keep the at-risk students in school and reduce the drop-out rates. Students who are at risk need effective and innovative school-work transition programs. These programs must provide opportunities for students to earn credit to meet diploma requirements while also preparing them to proceed directly to employment or self-employment.
- Introduce modularised programmes, which provide students with the opportunity to obtain broad basic vocational knowledge applicable in several possible occupations within one profession.
- Ensure that assessment tools are diverse to reflect a student's specific skills and knowledge, as well as to reveal student's ability to think creatively or to be innovative and adventuresome in problem solving.
- Increase the quality of teaching staff in secondary vocational schools. Teachers of vocational subjects should have access to opportunities to improve their knowledge and skills in psychology, pedagogy and didactics.
- Support establishment of Montenegrin qualifications framework, which ensures comparability with qualifications in other countries.
- Address gender stereotyping of specific jobs.
- Improve the technical base of vocational schools to reflect contemporary work conditions. The lack of modern teaching aids and materials is frequently mentioned as an obstacle the use of modern methods of teaching and learning.
- Promote citizen skills of students through awareness programmes and involve them in local cultural programmes and activities.
- Adopt a strategic approach to the development of higher education. High levels of participation in tertiary education achieved in Montenegro should be maintained.
- Increase funding and create incentives for professors.
- Facilitate networking of Montenegrin universities with foreign universities at the European and international levels. Increase mobility of students and professors.
- Establish national standards to assess and evaluate quality and competences of teachers in schools and professors within academia.
- Promote and encourage research in higher education institutions. Allow professors to take sabbatical leaves of absence to conduct their research activities in foreign universities
- Align the higher educational system and enrolment policy with labour market realities.
- Provide funding to establish distance learning systems. Create a national council for designing and monitoring distance learning systems.
- Support universities (and their libraries) in getting access to electronic journals and scientific and professional publications.

Cross-cutting education sector reforms may address the following areas:

- Expand lifelong learning opportunities and link them to labour market needs. Lifelong learning opportunities should help all citizens of Montenegro to adjust to a knowledge-based economy. Once people obtain formal education and build their learning skills, they have to be provided with access to opportunities to continually renew and improve their skills and competencies.
- Strengthen teachers' capacity and commitment. Both the quality of teachers (and principals) and teacher practices would ultimately be the most important factor in promoting learning and raising performance for all students. Teachers should be able to promote discovery-based learning and put a greater emphasis on outcomes that are broader than basic recall of facts and information. Teacher training, recruitment, deployment and motivation should be improved through appropriate incentives and accountability mechanisms to improve learning and enhance equity.
- Promote Information and Communication Technologies as the necessary tools for improving the teaching and learning process. ICT can customise the learning process and adapt it to the particular needs of the student as well as prepare them to live and work in a society where technology-related competencies are becoming increasingly indispensable.
- Include socially-excluded groups in learning. Modern economies cannot afford a significant uneducated, untrained and excluded minority. Exclusion reduces the capacity of individuals to contribute to and benefit from society and the economy. All Montenegrin children and adults deserve equitable access to education and learning opportunities.

Education matters a lot, but no one helped me educate my child, since I am a single mother.

NDP Qualitative Study 2011. Unemployed Berane focus group discussion

Health and Human Capital

Health plays an important role in determining a country's HC, including people's labour market performance that is directly linked to such macroeconomic benefits as GDP per capita. Healthier people can be more productive because more physically and mentally active individuals could make use of technology, equipment and their skills more effectively. Health is an important prerequisite for extending the number of economically productive life-years. Good health may contribute to workers' decisions to postpone retirement age and stay in the labour force longer.

The health of Montenegrins suffered substantially during the transition, when measured, for instance, by official life expectancy data. Although the budget allocations for healthcare are relatively high, there is a weak correlation between the amount of resources allocated and the outcomes in terms of health status. Despite the implementation of some reforms that were intended to improve the efficiency, equity of access and quality of healthcare services, their impact on human capital is not as significant as was expected.

We need to create an institute for workers' protection that will take care of workers' problems and ensure that every company conducts regular general check-ups.

UNDP Qualitative Study 2011. In-depth Interview, the Ministry of Public Health

Healthcare system has to be reformed to ensure that it delivers the outcomes supporting HC development and utilisation. Recommended reforms include:

- Improve focus on results of the healthcare system by enhancing system capacity to develop and implement evidence-based outcome-focused policies and programmes aligned with the EU models of healthcare. Capacities for health policymaking, planning, and management should be enhanced.
- Focus on financial sustainability and improve the effectiveness and efficiency of resource use by giving more decision-making powers to local authorities and hospitals. It is necessary to continue increasing the efficiency and sustainability of healthcare spending and continue shifting health financing from an input to a more output-based



system at the levels of primary, secondary, and tertiary care. A more flexible financing system, no longer based on strict input-based norms, would re-align provider capacities and improve efficiency.

- Prioritise health promotion and prevention. To improve a country's human capital in the long run, it is necessary to prioritise the goals of health promotion, prevention of diseases and prophylactics that often remain outside the core focus of healthcare reforms. Prevention of the diseases rather than a curative approach could decrease health sector expenditures and give the opportunity for the system to serve all better, preserving the benefits of the socialist model and giving the opportunity for the private sector to enlarge the choices of citizens to lead healthy and long lives.
- Ensure equity in access to quality healthcare services. Health inequalities persist in Montenegro despite continuously increasing allocations for the healthcare sector. Socially excluded groups face multiple and diverse barriers to accessing healthcare. Equity can be promoted by establishing nationwide medical standards and through the accreditation mechanism of healthcare providers that can ensure that these minimum standards of equipment and care are met. Healthcare entities in areas with limited coverage and access can be identified and additional capacity building measures implemented to address their circumstances. Additional measures such as a requirement for graduates of medical and nursing schools to serve for a period of time in underserved areas can be introduced as well.
- Explore the possibilities to expand private insurance and private service providers. The state, however, should continue taking primary responsibility for basic healthcare services, improved coverage and access for socially excluded groups that are most exposed to health risks. Other core priorities of the state may include active prevention, immunisation and prophylactic services.
- Implement policies targeted at increasing birth rates. To create more favourable conditions for couples to have more children, a set of interventions can be implemented that include improving women's rights in the field of health protection, particularly reproductive rights; providing more generous benefits for maternity and paternity leave in legislation such as the possibility to care for children at home when the child is very young; reduction of tax on goods such as clothes and food for children and direct transfers to low-income families with children; and improved labour rights of mothers employed in the private sector.

Young people generally say that financial difficulties prevent them from forming families. "It's hard to support a family with only one salary."

Question: How are you going to live on €450 euros per month?" A student: "We won't get married".

UNDP Qualitative Study 2011. Students from Niksic, focus group discussion

Social Capital

Although the subject of social capital deserves further analysis, this Report demonstrates that it is important to include the goals of improving social capital in the broader set of policies focusing on human capital development. Human capital creation and utilisation is a social activity as it happens through the interactions of ideas and individuals. Social interactions are necessary to create and utilise human capital.

Social capital may facilitate education, health and social service delivery as people are more likely to seek advice from someone they trust. Through informal networks built on trust the importance of pursuing quality education, healthcare prevention and community support of socially excluded groups can be promoted.

Social capital can support building the HC of the 21st century through enforcing or changing social norms and make them susceptible to human capital improvements. If a country has dense networks of social and civic engagement and participation, the more likely it is that members of a community will cooperate for mutual benefit. A more cohesive society, with a strong feeling of group identity is attentive to common well-being, implying that such values as hard work, pursuit of lifelong learning opportunities and healthy lifestyles can become norms shared by all. Increased social capital can help overcome feelings of mistrust and encourage community members towards collective actions promoting the welfare and inclusion of their community members.

Montenegro is a small country, everyone knows everyone, there's always been favouritism based on connections, but the only way to get rid of that is to follow the rules [of transparently].

UNDP Qualitative Study 2011. In-depth interview, the Association of Pensioners

Relying mostly on the findings and analysis of the UNDP Survey 2011, the Report found that:

- Montenegrins continue to believe that the state should address many of their concerns. A significant share of Montenegrins, especially the older generation, are not so eager to adopt all the ideals of democracy and the free market and accept responsibility for their own destiny.
- Montenegrins believe that connections are more important for professional career than knowledge, skills and work experience. 45.5% of respondents believe that it is of vital importance to be well-connected with people in a position of power in order to make progress in their lives and 46% find it to be important.
- Montenegrins realise that corruption is damaging yet they accept it as a part of their everyday lives. Corruption is still prevalent in many areas, especially in the construction, privatisation and public procurements sector. Formal or informal out-of-pocket payments are thought to account for a substantial share of health expenditure. In education, corruption and other "informal user fees" (often due to low teacher salaries) are limiting access to quality education services for many individuals. Despite a number of government interventions combatting corruption, citizens are still inclined to justify gifts or giving money in many areas of life.

When questioned "What do you think when someone says", "look for work", respondents answer "he won't find it", "poor fool, he is looking", "€5,000 in an envelope", etc.

In Berane, we first consider who knows whom and then we run to the mayor and try to use all possible connections.

UNDP Qualitative Study 2011. Unemployed Berane, focus group discussion

When asked how they get information about potential work opportunities, the answer is that people mostly learn about open positions from ads and during the season from the Agency for the Unemployed, but only people with desirable political views get chances [of being hired].

UNDP Qualitative Study 2011. Unemployed young people in Podgorica, focus group discussion

- Montenegrins prefer being employed in the public sector with less salary than in the private sector. Almost two-thirds of respondents (64%) would prefer to work in public administration for €450 than in the private sector for €750 per month.

The advantages of my job as a director are that I can work as much as I want, create my own tasks, work as I like, not be subordinated to anyone and my salary depends on how much I work. However, this position is much more unstable than that of people who are permanently employed. The disadvantages are a lack of security, [the impact] of the economic crisis, not having anyone to fill in for me if necessary, no one to push us forward and no strikes in front of the Government building. To own a business, but not to sacrifice as much. To have normal conditions, as in the rest of the world.

UNDP Qualitative Study 2011. Employed in Berane, focus group discussion

- Montenegrins have traditional values that may not always support HC development. One-quarter of respondents believe that competition is good as it stimulates people to work hard, develop and promote new ideas and become more active in making their own choices. When it comes to willingness to pursue training and other job opportunities, citizens' mobility is low as almost a quarter of respondents believe that changing jobs is inappropriate, and almost 50% believe that it should be done once or twice.

At the individual level, Montenegrins value family relations and strongly rely on their networks of family members and friends. Although a majority of respondents tend to mistrust people (64% of respondents), the overwhelming majority of respondents (89.7%) declared that they have close friends. More than 43% are very happy with their family life, and 67%



of respondents highly rate their family life. In summary, a Montenegrin citizen is “encapsulated” at the level of the smallest social groups that help him or her to address various issues and concerns that makes the circulation of ideas, information and resources between groups more difficult and limits opportunities for development of the country’s human capital.

At the levels of community and society, Montenegrins do not believe in their own and collective abilities to influence decision making and only insignificant numbers of individuals participate in non-governmental organisations, associations, clubs and other forms of civil society. The youth is the most active group and 12% of youth survey respondents are members of and actively participate in student organisations, while 13% are not members but actively participate. Unwillingness to engage into any forms of collective actions slowly spilled over to other spheres, undermining sustainable development and economic potentials of communities.

As social capital is critically important for effective HC formation and utilisation in Montenegro, it is important to implement a series of strategies and policies building social capital as it relates to human capital:

- Strengthen national level social capital through building trust and confidence in state institutions. The Government has to implement a range of interventions strengthening the rule of law, transparency, accountability and public trust in state institutions. The conflict-of-interest provisions as they relate to public administration should be effectively enforced. Montenegrins should be aware of the current freedom-of-information legislation and encouraged to use it. Trust in state institutions can be built through extensive interactions between state officials and the public.
- The media can play a more active role in building social capital and facilitating collaboration of citizens and decision makers. Social networking, and in particular online media should be utilised also to empower many community members to participate actively in community development. Community news can be shared and community discussions supported on Facebook and Twitter.
- Strengthen civil society and promote values of volunteerism. In addition to building NGOs’ capacity to address nationwide concerns, there is a persistent need to develop the capacities of these organisations to provide effective and sustainable solutions to address the needs of their members and the groups they serve and advocate their interest with the authorities.
- Education system should promote positive social values and culture of participation in community life. Courses on civic education, citizenship and the EU should become more community-level-focused and encourage children to explore how national policies and local programmes directly influence their community and people they know. Students should be provided with multiple opportunities to practice socially responsible behaviour in multiple settings.

It is regulated by the law that I can volunteer, but the experiences of some of my colleagues teach that it is not a good idea. Volunteers are hardly ever accepted for work, under the premise that all positions are already filled.

UNDP Qualitative Study 2011. Unemployed young people in Podgorica, focus group discussion

By demonstrating the importance of HC to human development and the multidimensional nature of factors shaping HC, this NHDR tries to bring a paradigm shift, according to which education, health, social capital and other relevant areas are seen not merely as ends in themselves, but also a means for building HC capital that brings positive human development outcomes for all. The authors of the Report provided some ideas and recommendations that we, as society, can examine and decide if they support our society’s goals. We welcome all the readers to participate in this discussion and freely express their ideas to make a positive contribution to our national human capital.

ANNEXES

ANNEX A

RESEARCH METHODOLOGY

For the purposes of the Programme for United Nations Development Programme (UNDP), the research agency CEED Consulting has conducted a quantitative (face-to-face) and qualitative (in-depth interviews and focus groups) research on human capital in Montenegro.

Quantitative research method (face-to-face) is being implemented with the aim of considering the cause and consequential relationship between events defined by project activities. This method is being implemented by the use of a (semi) structured questionnaire on a target group in order to receive accurate and valid data.

Sampling frame and sample size

The sample was created based on the most recent Census data in cooperation with MONSTAT sampling experts¹⁶¹, including 20 municipalities (namely: Andrijevica, Bar, Berane, Bijelo Polje, Budva, Danilovgrad, Žabljak, Kolašin, Kotor, Mojkovac, Nikšić, Plav, Plužine, Pljevlja, Podgorica, Rožaje, Tivat, Ulcinj, Herceg Novi and Cetinje).

Representative sampling should enable generalisation of the results to the entire population, as well as comparison of the results for urban and rural areas, and by regions. As mentioned, the Sampling frame was based on the Census of the Population, Households and Dwellings from 2011.

Sample size would be calculated on the basis of the following formula:

$$n = \frac{z^2 * p(1 - p)}{e^2}$$

where:

n – represents the sample size,

z – value of the normal distribution for the certain confidence level,

p – value of the baseline indicator (0.50%), and

e – precision.

The following assumptions were taken in account:

- ✓ non-response rate of 10%,
- ✓ 95% confidence interval,
- ✓ precision of 0.05.

The sample size obtained on the basis of abovementioned formula was corrected in accordance with the expected non response rate.

¹⁶¹ MONSTAT, Census 2011



Stratification, sampling of the PSU and sample allocation

The sample was created as a two-stage stratified sample, with the enumeration areas as primary sampling units and households as secondary units. Collective households were omitted. A list of enumeration areas with 20 or more households was taken as the sampling frame for the primary sampling units.

Enumeration areas, as primary sampling units, were stratified according to:

1. Type of settlement
 - ✓ urban,
 - ✓ rural
2. Territory
 - ✓ North (municipalities Andrijeвица, Berane, Rožaje, Bijelo Polje, Pljevlja, Plav, Žabljak, Kolašin, Mojkovac and Plužine)
 - ✓ South (municipalities Bar, Ulcinj, Budva, Tivat, Kotor and Herceg Novi)
 - ✓ Municipalities Nikšić and Danilovgrad,
 - ✓ Municipalities Podgorica and Cetinje.

Allocations of 260 enumeration areas were done by stratum (territory and type of settlement). Primary sampling units (enumeration areas) were selected in proportion to the number of persons, without repetition. A list of households for the selected enumeration areas were used as the sampling frame for the selection of secondary units – households. 5 households from each, previously selected, enumeration area (simple random sample) were selected. Also, 5 substitution households were selected for each enumeration area (simple random sample). The sample included a total of 1297 households. Overall, demographic questions were answered by all members of the household, while the other questions were answered by a one adult (18+) member of the selected household. The choice of a household member who would answer questions was made by Kish table. Also, in order to provide the representativeness of this kind of sample we use of a Kish grid. The Kish grid gives a procedure for selection of one member of the household out of all household members and introduces one more stage in sampling design.

The procedure is the following: the interviewer lists first males in order of decreasing age, then females in the same order. Then the interviewer consults the selection table (Kish table) to tell him the number of the adult to be interviewed.

Finally, the following table contains the sample chosen.

Table 1: Sample executed

Municipality	Andrijeвица	Bar	Berane	Bijelo Polje	Budva	Cetinje	Danilovgrad	Herceg Novi	Kolašin	Kotor	Mojkovac	Nikšić	Plav	Pijevija	Plužine	Podgorica	Rožaje	Tivat	Ulcinj	Žabljak	Crna Gora
Sample size	10	95	65	90	45	40	30	75	20	55	15	150	25	75	5	380	41	30	41	10	1297

Source: CEED Consulting

A Qualitative method of research involves the assessment of attitudes, motives and respondents' opinions on the subject of human capital and its deeper understanding. Application of quality techniques (in the form of in-depth interviews and focus groups) allowed to analyse the way in which human capital is created, used and planned in Montenegro, as well as to identify the attitudes and values of the respondents on the subject.

In-depth interviews were completed with representatives of seven Montenegrin institutions (the Ministry of Education and Sport, UDG, the Employment Office, Montenegro Business Alliance, Human Resources Management, Pensioners Association of Montenegro and the Institute of Public Health) to determine their understanding of human capital, their opinion on the existing education system and possibilities of finding work, and expectations of representatives of institutions on the development of human capital in the future.

Six focus groups were conducted with representatives of human capital, as well as those who “create and use it”, which allowed a deeper analysis of the quality of life/values of individuals, education and employment, as well as future expectations. When recruiting, participants, attention was paid to gender equality.

Focus groups were carried out with the following target groups and cities:

- FGD 1 and FGD 2: Employees, Podgorica and Berane
- FGD 3: Housewives and long-term unemployed, Berane
- FGD 4: Teachers in secondary schools, Podgorica
- FGD 5: Students and young people looking for their first job, Podgorica.



ANNEX B

HUMAN DEVELOPMENT PROFILE

- **Human Development Index (HDI)**

The HDI is a composite index measuring average achievement in three basic dimensions of human development—a long and healthy life, knowledge and a decent standard of living.

Table 2: Montenegro's HDI indicators, 2005-2011

	Life expectancy at birth (years)	Health index (life expectancy)	Expected years of schooling (of children under 7)*	Mean years of schooling (of adults)**	Education index	GNI per capita in PPP terms (constant 2005 international \$)	Income index	HDI value - Montenegro	HDI - Europe and Central Asia	HDI - World
2005	74.1	0.853	13.7	10.6	0.802	8,340	0.634	0.757	0.728	0.660
2006	74.0	0.852	13.7	10.6	0.802	9,140	0.647	0.762	0.734	0.664
2007	74.0	0.852	13.7	10.6	0.802	10,025	0.660	0.767	0.741	0.670
2008	74.1	0.853	13.7	10.6	0.802	10,794	0.671	0.771	0.745	0.674
2009	74.2	0.855	13.7	10.6	0.802	10,028	0.660	0.768	0.744	0.676
2010	74.4	0.858	13.7	10.6	0.802	10,121	0.661	0.769	0.748	0.679
2011	74.6	0.861	13.7	10.6	0.802	10,361	0.665	0.771	0.751	0.682

*note: 1) Data refers to 2011 or the most recent year available; 2) Based on cross-country regression.

**note: 1) Data refers to 2011 or the most recent year available.

Source: UNDP. (global) Human Development Report 2011 (<http://hdrstats.undp.org/en/countries/profiles/MNE.html>)

- **Inequality-adjusted HDI (IHDI)**

Table 3: IHDI is a Human Development Index (HDI) value adjusted for inequalities in the three basic dimensions of human development.

	Income Gini coefficient	Loss due to inequality in life expectancy at birth (%)	Loss due to inequality in education (%)	Loss due to inequality in income (%)	Overall loss (%)	Inequality-adjusted HDI
2011	30	6.8	2.5	11.3	6.9	0.718

Source: UNDP. (global) Human Development Report 2011 (<http://hdrstats.undp.org/en/countries/profiles/MNE.html>)

- **Gender Inequality Index (GII)**

The Gender Inequality Index (GII) reflects gender-based inequalities in three dimensions – reproductive health, empowerment and economic activity. Due to a lack of relevant data, the GIJ has not been calculated for Montenegro.

- **Multidimensional Poverty Index (MPI)**

MPI is a composite measure of the percentage of deprivations that an average person would experience if the deprivations of poor households were shared equally across the population.

Table 4: Montenegro's MPI for 2011

	MPI: Intensity of deprivation	Headcount of MPI poor (% of population)	Population living below \$1.25 PPP per day (%)	Multidimensional Poverty Index (%)
2011	41.6	1.5	0	0.006

Note: Published in 2011 using data from 2000-2010.

Source: UNDP. (global) Human Development Report 2011 (<http://hdrstats.undp.org/en/countries/profiles/MNE.html>)



ANNEX C

DEMOGRAPHIC PROFILE

Table 5: Population by age group, Montenegro, 1953-2009

Age group / indicator	1953	1961	1971	1981	1991	2003	2004*	2005*	2006*	2007*	2008*	2009*	2010*
	Population												
Total	419,873	471,894	529,604	584,310	..	..	621,258	622,978	623,576	426,390	428,993	630,142	632,922
0-14	149,144	171,658	169,139	160,546	..	..	129,050	127,612	125,576	81,637	81,846	122,115	122,083
15-64	239,781	266,514	317,417	615,035	633,985	..	417,142	417,971	418,611	420,928	423,947	..	..
65+	30,930	33,440	40,417	155,458	131,883	75,156	75,066	77,395	79,389	80,304	81,093	..	..
	Share in total population (u %)												
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
0-14	35.5	36.4	32.1	27.6	25.5	21.0	20.8	20.5	20.1	19.8	19.5	19.4	19.3
15-64	57.1	56.5	60.2	64.2	66.2	67.0	67.1	67.1	67.1	67.4	67.6	67.7	67.8
65+	7.4	7.1	7.7	8.3	8.3	12.0	12.1	12.4	12.7	12.9	12.9	13.0	12.9

Source: MONSTAT – Demographic trends in Montenegro, table I-19 (53) – from 1953-2003,
*MONSTAT estimates on 1st January for 2004-2010

Table 6: Population Dynamics

Year	Midyear population*	Live births	Deaths		Natural increase	New marriages	Divorces
			Total	Infant deaths			
1951	407,000	1,2898	4,416	1,092	8,482	3,284	187
1961	474,000	1,2994	3,335	798	9,659	3,510	382
1971	525,002	1,0866	3,278	378	7,588	3,951	226
1981	585,671	1,0441	3,556	227	6,885	4,422	276
1991	591,843	9,6060	3,970	107	5,636	3,817	388
2000	612,496	9,1840	5,412	102	3,772	3,866	435
2001	614,791	8,8390	5,431	129	3,408	3,893	492
2002	617,085	8,4990	5,513	92	2,986	3,794	506
2003	620,279	8,3440	5,704	92	2,640	4,050	494
2004	622,118	7,8490	5,707	61	2,142	3,440	505
2005	623,277	7,3520	5,839	70	1,513	3,291	499
2006	624,241	7,5310	5,968	83	1,563	3,462	470
2007	626,188	7,8340	5,979	58	1,855	4,005	453
2008	628,804	8,2580	5,708	62	2,550	3,445	460
2009	631,536	8,6420	5,862	49	2,780	3,829	456
2010	618,757	7,4180	5,633	50	1,785	3,675	520

Source: MONSTAT – Statistical yearbook 2011
* The estimate of the number of the population for 2010 is calculated based on the 2011 Census result

Table 7: Life expectancy at birth, by gender in Montenegro (years)¹⁶²

Period	Gender		Average
	Male	Female	
1952-1954	58.35	59.86	59.11
1960-1962	61.97	65.38	63.68
1970-1972	68.11	73.05	70.58
1980-1982	71.94	76.37	74.16
1990-1992	71.51	78.61	75.06
2002-2004	71.79	76.66	74.23
2004	71.00	75.20	73.10
2005	70.30	74.90	72.60
2006	70.60	74.80	72.70
2007	71.20	76.10	73.65
2008	71.20	76.10	73.65
2009	..	..	74.20
2011	..	..	74.60

Source:

1) Data for 1952-2004 – MONSTAT – Demographic trends in Montenegro, table I-9 (p.36)

2) Data for 2004-2008 data – MONSTAT, "Women and men in Montenegro", 2010

3) Data for 2009 -2011 – UNDP (global) Human Development Report 2011 (<http://hdrstats.undp.org/en/indicators/69206.html>)

Table 8: Population aged 10 and over, by literacy and sex, according to censuses

	Illiterate					Structure of illiterate population by sex (in %)			
	Census 1971	Census 1981	Census 1991	Census 2003	Census 2011	Census 1971	Census 1981	Census 1991	Census 2003
Total	69,805	44,633	30,443	12,617	8,149	100.0	100.0	100.0	100.0
Male	14,405	7,928	5,226	2,006	..	20.6	17.8	17.2	15.9
Female	55,400	36,705	25,217	10,611	..	79.4	82.2	82.8	84.1
Illiterate population, %	16,7	9,4	5,9	2,35	1,5	..	..	..	..

Source: MONSTAT

¹⁶² The human development data such as the Human Development Index (HDI) and other composite indices featured in this NHDR are calculated by Human Development Report Office. They are based on a variety of public international sources and represent the best and most current statistics available for those indicators at the time of the preparation of the global HDR. Some specialised agencies of the United Nations system that provided statistical information include: health – World Health Organization (WHO), education – United Nations Education Scientific and Cultural Organisation (UNESCO) Institute for Statistics, and labour market statistics – International Labour Organisation (ILO) and many more, including mean years of schooling data from Barro and Lee. This NHDR uses national sources of statistical information. As a result, certain discrepancies in statistical data are inevitable, as international sources include certain data standardisation and corrections.



ANNEX D

MACROECONOMIC DATA

Table 9: GDP structure and growth rates

	GDP structure (%)			GDP real growth rates (%)		
	2008	2009	2010	2008	2009	2010
Agriculture, hunting, forestry and fishing	7.5	8.3	7.7	11.5	1.8	-1.3
Mining and quarrying	1.2	0.7	1.2	17.6	-62.9	65.1
Manufacturing	5.4	4.9	4.5	-6.4	-27.1	-3.9
Electricity, gas and water supply	4.2	5.7	5.5	20.2	8.7	21.6
Construction	6.2	5.4	5.1	20.7	-19.2	-7.4
Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	12.4	12.0	12.2	10.2	-18	0.9
Hotels and restaurants	4.3	5.1	5.2	3	-3.1	5.5
Transport, storage and communication	9.4	9.5	9.6	5.4	12	2.4
Financial intermediation	3.9	4.1	4.0	5.9	2.7	1.3
Real estate, renting and business activities	8.1	8.4	8.7	1.8	7.5	1.6
Public administration and defence; compulsory social security	8.7	8.5	8.2	4.2	1.2	0
Education	3.8	4.2	4.5	-0.2	0.8	-0.2
Health and social work	3.5	4	4.0	-0.6	-1	-1.9
Other community, social and personal activities	1.7	2.2	3.0	-2.9	19.1	14.6
Private households with employed persons	0	0	0	0	0	0
Extra-territorial organisations and bodies	0	0	0	0	0	0
Total	80.3	83	83.4	6.7	-3.8	2.4
Taxes on products less subsidies on products	19.7	17	16.6	7.7	-13.4	2.7
GROSS DOMESTIC PRODUCT (current prices)	100	100	100	6.9	-5.7	2.5

Source: MONSTAT

Table 10: Key macroeconomic indicators

	2005	2006	2007	2008	2009	2010	2011
GDP (€ millions) ¹	1,815	2,149.0	2,680.5	3,085.6	2,981	3,104	3,234
GDP growth, real (%) ¹	4.2	8.6	10.7	6.9	-5.7	2.5	3.2
GDP per capita ¹	2,912	3,443	4,280	4,908	4,720	5,006	5,211
Inflation (%) ²	2.4	2.8	7.7	7.2	1.5	0.7	2.8
Unemployment rate (%) ³	18.4	14.7	11.9	10.7	11.4	12.12	11.55
Foreign debt (% of GDP) ⁴	28.3	23.5	17.2	15.6	23.5	29.6	32.5
FDI – net (€ millions) ⁵	399	470	568	582	1,066	552	389
FDI % of GDP (calculated)	22.0	21.9	21.2	18.9	35.8	17.8	11.9
Current account balance (€ thousands) ⁵	-102	-674	-1,059	-1,561	-881	-764	-634
Current account balance - % of GDP (calculated)	-5.6%	-31.4%	-39.5%	-50.6%	-29.6%	-24.6%	-19.4%

Sources:

1) MONSTAT

2) MONSTAT and CBM calculations, note: as of January 2009 inflation is measured using the CPI instead of the Cost of Living Index

3) Employment Agency of Montenegro

4) Ministry of Finance, note: for 2011 estimates by the Ministry of Finance (data from the Pre-accession Economic Programme (PEP) for 2012-2014)

5) Central Bank of Montenegro (CBM)

- EMPLOYMENT

Table 11: Principal characteristics of the population by activity

	2007	2008	2009	2010	2011
	TOTAL				
Total population	638.0	639.7	642.3	645.3	619.9
Labour force	263.7	266.7	264.0	260.7	244.1
Persons in employment	212.7	221.9	213.6	209.4	196.0
Unemployed persons	51.1	44.8	50.4	51.3	48.1
Activity rate	51.7	51.9	51.1	50.1	48.7
Employment rate	41.7	43.2	41.3	40.3	39.1
Unemployment rate	19.4	16.8	19.1	19.7	19.7
	MEN (thousands)				
Total population	314.2	315.1	316.6	318.0	306.2
Labour force	148.8	150.8	149.1	146.9	136.1
Persons in employment	121.7	126.7	122.2	119.1	109.6
Unemployed persons	27.0	24.0	26.9	27.8	26.5
Activity rate	60.0	60.4	59.3	58.1	55.7
Employment rate	49.1	50.8	48.6	47.1	44.8
Unemployment rate	18.1	15.9	18.0	18.9	19.5
	ŽENE/WOMEN (thousands)				
Total population	323.7	324.5	325.8	327.2	313.7
Labour force	115.0	115.9	115.0	113.8	108.0
Persons in employment	91.0	95.1	91.4	90.3	86.4
Unemployed persons	24.0	20.8	23.5	23.5	21.6
Activity rate	43.9	43.9	43.3	42.6	42.1
Employment rate	34.8	36.1	34.4	33.8	33.7
Unemployment rate	20.9	17.9	20.4	20.7	20.0

Source: Labour Force Survey, MONSTAT

Table 12: Employed population by school attainment

	2007		2008		2009		2010		2011	
	(000)	(%)	(000)	(%)	(000)	(000)	(000)	(%)	(000)	(%)
Total	212.7	100.0	221.9	100.0	213.6	221.9	209.4	100.0	196.0	100.0
Less than primary education	((5.4))	((2.5))	6.0	2.7	(3.5)	6.0	2.6	1.2	2.1	1.1
Primary education	(21.0)	(9.9)	21.3	9.6	18.7	21.3	16.4	7.8	14.0	7.1
Vocational education after primary school	(27.3)	(12.8)	25.4	11.4	27.2	25.4	24.2	11.6	21.4	10.9
Secondary general education	(16.1)	(7.6)	15.6	7.0	13.4	15.6	11.8	5.6	9.8	5.0
Secondary vocational education	96.6	45.4	106.4	48.0	102.2	106.4	106.0	50.6	98.2	50.1
Tertiary education of which:	46.3	21.8	47.2	21.3	48.6	47.2	48.4	23.1	50.4	25.7
First stage of tertiary education	(13.8)	(6.5)	12.7	5.7	12.3	12.7	10.6	5.1	9.4	4.8
Second stage of tertiary education, bachelors', masters, or doctors' degree	(32.5)	(15.3)	34.5	15.5	36.3	34.5	37.8	18.0	41.0	20.9

Notes: () - less accurate estimate; (()) - inaccurate estimate

Source: Labour Force Survey, MONSTAT



Table 13: Employed population by school attainment and sex, 2011

	(thousands)			(%)		
	Total	Men	Women	Total	Men	Women
Total	196.0	109,6	86,4	100.0	100.0	100.0
Less than primary education	2.1	1.3	0.9	1.1	1.2	1.0
Primary education	14.0	9.7	(4.3)	7.1	8.9	(4.9)
Vocational education after primary school	21.4	15.5	5.9	10.9	14.1	6.8
Secondary general education	9.8	4.9	4.9	5.0	4.5	5.7
Secondary vocational education	98.2	53.3	44.9	50.1	48.6	52.0
Tertiary education, of which:	50.4	24.9	25.5	25.7	22.7	29.5
First stage of tertiary education	9.4	5.0	4.4	4.8	4.6	5.1
Second stage of tertiary education, bachelors', masters, or doctors' degree	41.0	19.9	21.1	20.9	18.1	24.5

Notes: () - less accurate estimate; (()) – inaccurate estimate

Source: Labour Force Survey 2011, MONSTAT

Table 14: Employed persons, by sectors of activity and sex, 2011

	(thousands)			(%)			% Women
	Total	Men	Women	Total	Men	Women	
Total	196.0	109.6	86.4	100.0	100.0	100.0	44.1
Agriculture*	10.9	7.3	3.6	5.5	6.6	4.2	33.3
Industry	37.2	29.1	8.1	19.0	26.6	9.4	21.7
Mining manufacturing	((2.1))	(1.8)	-	(1.1)	(1.7)	-	((13.8))
Manufacturing	15.6	11.1	(4.5)	8.0	10.2	(5.2)	28.8
Electricity, gas, steam and air-conditioning	2.9	2.4	-	1.5	2.2	((0.6))	((17.7))
Water supply, wastewater management	4.8	3.8	(1.0)	2.5	3.5	1.2	(20.9)
Construction	11.7	9.9	(1.8)	6.0	9.1	(2.0)	(15.0)
Services	147.9	73.2	74.7	75.5	66.8	86.4	50.5
Wholesale, retail; repair	46.2	21.4	24.9	23.6	19.5	28.8	53.8
Transport, storage and communication	12.0	10.0	(2.0)	6.1	9.1	(2.3)	(16.9)
Accommodation and food services	15.5	8.7	6.8	7.9	7.9	7.9	43.9
Information and communications	5.2	3.1	2.0	2.6	2.9	2.3	39.1
Financial and insurance activities	3.8	(1.6)	2.2	1.9	(1.4)	2.6	58.5
Real estate, leasing and business activities	(1.1)	-	(1.0)	(0.5)	-	(1.1)	89.9
Professional, scientific and technical activities	9.0	(4.3)	4.7	4.6	(3.9)	5.4	52.3
Administrative and support service activities	3.8	2.4	(1.3)	1.9	2.2	(1.6)	(35.9)
Public administration and defence	19.1	10.6	8.5	9.7	9.7	9.8	44.4
Education	12.1	(4.2)	7.9	6.2	(3.8)	9.2	65.6
Health and social work	10.7	2.6	8.0	5.4	(2.4)	9.3	75.5
Arts, entertainment and recreation	4.5	2.4	2.2	2.3	2.2	2.5	48.0
Other social and personal services**	(4.7)	1.9	(2.8)	(2.4)	1.7	(3.2)	59.6

Notes: () - less accurate estimate; (()) – inaccurate estimate

Source: Labour Force Survey, MONSTAT

* Agriculture includes forestry and fishing

** Including households with employed persons, as well as extra-territorial organisations

Table 15: Employed persons by occupation

	2007		2008		2009		2010		2011	
	(000)	(%)	(000)	(%)	(000)	(%)	(000)	(%)	(000)	(%)
Total	212.7	100.0	221.9	100.0	213.6	100.0	209.4	100.0	196.0	100.0
Legislators, senior officials, and manager	(13.7)	(6.5)	13.7	6.2	15.1	7.1	15.9	7.6	10.4	5.3
Professionals	(27.1)	12.7	24.2	10.9	24.2	11.3	25.1	12.0	32.9	16.8
Associated professionals and technicians	29.5	(13.9)	38.2	17.2	34.7	16.2	34.4	16.4	28.6	14.6
Clerks	18.1	(8.5)	23.7	10.7	23.5	11.0	23.1	11.0	19.4	9.9
Market, sales, and service workers	50.8	23.9	47.3	21.3	48.9	22.9	47.9	22.9	50.5	25.8
Skilled agricultural workers	((12.6))	(5.9)	13.3	6.0	11.0	5.1	10.6	5.1	8.7	4.4
Craft and related trades workers	22.7	10.7	22.8	10.3	21.1	9.9	18.6	8.9	16.8	8.6
Plant and machine operators and assemblers	(18.2)	(8.5)	19.3	8.7	17.4	8.1	16.9	8.1	14.6	7.5
Elementary occupations	(19.0)	(8.9)	18.8	8.5	17.3	8.1	15.9	7.6	13.9	7.1
Military occupations	..	..	(0.6)	(0.3)	((0.6))	..	1.1	0.5	(0.2)	0.1

Notes: () - less accurate estimate; (()) – inaccurate estimate

Source: Labour Force Survey, MONSTAT

- UNEMPLOYMENT

Table 16: Unemployed persons, by school attainment

	2007		2008		2009		2010		2011	
	(000)	(%)	(000)	(%)	(000)	(%)	(000)	(%)	(000)	(%)
TOTAL	51.1	100.0	44.8	100.0	50.4	100.0	51.3	100.0	48.1	100.0
Less than primary education	..	..	..	..	0.8	1.6	((0.8))	((1.6))	(1.0)	((2.1))
Primary education	(8.6)	(16.8)	7.4	16.5	7.2	14.4	5.8	11.3	5.8	12.2
Vocational education after primary school	(11.2)	(22.0)	7.8	17.3	10.2	20.2	10.1	19.7	9.6	20.0
Secondary general education	(5.5)	(10.8)	2.8	6.3	(2.9)	5.7	3.2	6.2	(2.3)	(4.9)
Secondary vocational education	(20.3)	39.7	22.0	49.1	23.2	46.1	24.6	48.0	21.4	44.6
Tertiary education of which:	((4.9))	((9.7))	(3.8)	(8.5)	6.1	12.1	6.8	13.2	(7.8)	(16.3)
First stage of tertiary education	((2.0))	((4.0))	(1.0)	(2.3)	(1.6)	(3.2)	((1.6))	((3.0))	..	..
Second stage of tertiary education, Bachelor's, Master's, or Doctor's degree	((2.9))	..	(2.8)	(6.2)	4.5	8.9	5.2	10.2	(1.7)	(3.5)

Notes: () - less accurate estimate; (()) – inaccurate estimate

Source: Labour Force Survey, MONSTAT



Tabela 17: Unemployed persons by school attainment and sex, 2011

	(thousands)			(%)			% Women
	Total	Men	Women	Total	Men	Women	
Total	48.1	26.5	21.6	100.0	100.0	100.0	44.9
Less than primary education	(1.0)	((0.4))	(0.6)	((2.1))	..	(2.9)	62.8
Primary education	5.8	3.3	2.6	12.2	12.4	11.8	43.7
Vocational education after primary school	9.6	6.2	3.5	20.0	20.0	16.1	36.0
Secondary general education	(2.3)	((1.0))	(1.3)	(4.9)	((3.9))	(6.0)	55.7
Secondary vocational education	21.4	11.9	9.5	44.6	44.9	44.2	44.5
Tertiary education of which	(7.8)	(3.7)	4.1	(16.3)	(14.1)	19.0	52.2
First stage of tertiary educat.	(1.7)	..	((0.6))	(3.5)	..	((2.6))	..
Second stage of tertiary education, Bachelor's, Master's, or Doctor's degree	(6.2)	(2.6)	3.5	12.8	(9.9)	16.4	57.5

Notes: () - less accurate estimate; (()) – inaccurate estimate

Source: Labour Force Survey, MONSTAT

Table 18: Unemployed persons by duration of unemployment

	2007		2008		2009		2010		2011	
	(000)	(%)	(000)	(%)	(000)	(%)	(000)	(%)	(000)	(%)
Total	51.1	100.0	44.8	100.0	50.4	100.0	51.3	100.0	48,1	100,0
Less than 1 month	((1.7))	..	..	..	((1.2))	..	(1.6)	(3.1)	..	..
One to 5 months	(8.1)	(15.8)	4.9	11.0	(4.3)	((8.5))	4.8	9.3	5.0	10.4
6 to 11 months	((3.9))	((7.6))	(3.2)	7.1	(3.9)	(7.7)	4.6	(8.9)	3.9	8.1
12 to 23 months	(6.3)	(12.3)	6.6	14.7	6.3	12.4	7.1	13.8	6.4	13.3
2 years and longer	31.1	60.9	29.0	64.7	34.8	68.9	33.3	64.9	31.9	66.3

Notes: () - less accurate estimate; (()) – inaccurate estimate

Source: Labour Force Survey, MONSTAT

ANNEX E

POPULATION INCOMES AND EXPENDITURES

Table 20: Average earnings (Earnings without taxes and contributions)

	2002		2003		2004		2005		2006		2007 ²⁾		2008		2009		2010	
	GROSS	NET	GROSS	NET	GROSS	NET	GROSS	NET	GROSS	NET	GROSS	NET	GROSS	NET	GROSS	NET	GROSS	NET
Total	251	149	271	174	303	195	326	213	377	246	497	338	609	416	643	463	715	479

Note: ²⁾A New method of calculating average income was introduced in 2007

Source: MONSTAT, Department for statistics on the labour market, living conditions, social services and households expenditures

Table 21: Available assets and personal consumption by household

	Monthly average by household (€)					Structure of available assets and personal consumption				
	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011
Total available assets	568	607	633	588	606	100.00	100.00	100.00	100.00	100.00
Wages and salaries	347	373	385	347	328	61.03	61.38	60.75	58.95	54.18
Income from pension insurance	101	138	151	165	180	17.83	22.78	23.77	28.03	29.81
Income from social insurance	6	7	6	7	8	1.13	1.10	0.96	1.26	1.28
Income from agriculture	20	33	31	28	33	3.55	5.45	4.94	4.80	5.46
Income from small business	9	7	9	9	19	1.62	1.16	1.45	1.48	3.10
Wages in kind	0	0	0	0	0	0.05	0.00	0.00	0.00	0.00
Income from property	5	8	21	5	14	0.94	1.31	3.36	0.82	2.38
Gifts and gain	20	14	9	17	12	3.48	2.34	1.42	2.81	1.91
Other available assets	59	27	21	11	11	10.37	4.48	3.35	1.84	1.88
Total personal consumption	560	638	587	564	557	100.00	100.00	100.00	100.00	100.00
Personal consumption	525	594	550	523	525	98.81	93.08	93.72	92.72	94.25
Food and beverages	186	209	190	191	187	33.18	32.69	32.35	33.84	33.60
Alcoholic beverages and tobacco	18	22	19	18	20	3.29	3.44	3.30	3.28	3.61
Clothes and footwear	43	45	44	42	39	7.68	7.06	7.45	7.38	7.01
Housing, water and electricity	67	71	77	81	79	12.06	11.05	13.13	14.39	14.13
Furniture, housing and maintenance	27	33	27	22	26	4.77	5.22	4.58	3.94	4.64
Health	21	18	17	19	21	3.72	2.80	2.93	3.32	3.79
Transport	58	73	57	49	56	10.28	11.49	9.63	8.73	9.98
Communication	32	33	30	29	31	5.73	5.18	5.07	5.13	5.64
Recreation and culture	20	23	22	21	18	3.65	3.64	3.70	3.66	3.23
Education	12	13	14	10	9	2.16	2.01	2.34	1.78	1.55
Restaurants and hotels	14	18	16	13	13	2.54	2.75	2.66	2.33	2.28
Other goods and services	27	37	39	28	27	4.75	5.77	6.58	4.95	4.79
Personal consumption from own production	35	44	37	41	32	6.19	6.92	6.28	7.28	5.75
Food and beverages	29	37	31	34	26	5.20	5.84	5.22	5.98	4.63
Alcoholic beverages	2	1	1	1	1	0.30	0.14	0.16	0.23	0.14
Firewood	4	6	5	6	5	0.69	0.94	0.90	1.06	0.99

Source: Household Budget Survey, MONSTAT



Table 22: Poverty line

	National absolute poverty line by expenditures (€ per month, per equivalent adult person)	Poverty rate (%)	Gini coefficient (by expenditures) (%)
2006	144.68	11.3	24.4
2007	150.76	8.0	26.4
2008	163.57	4.9	25.3
2009	169.13	6.8	26.4
2010	169.98	6.6	24.3
2011	175.25	9.3	25.9

Source: MONSTAT, Department for statistics on labour market, living conditions, social services and households expenditures

ANNEX F

EDUCATION

- PRE-SCHOOL EDUCATION

Table 23: Pre-school institutions, children and employees

	Number of pre-school institutions	Number of enrolled children			Employees		
		Total	Girls	Boys	Total	Female	Male
2000/2001	69	11,846	5,638	6,208	1,173	1,010	163
2001/2002	73	12,584	5,961	6,623	1,252	1,179	73
2002/2003	75	12,173	5,785	6,388	1,250	1,172	78
2003/2004	78	11,534	5,397	6,137	1,242	1,177	65
2004/2005	82	11,761	5,656	6,105	1,207	1,121	86
2005/2006	87	11,724	5,713	6,011	1,212	1,145	67
2006/2007	88	10,511	5,031	5,480	1,203	1,135	68
2007/2008	90	11,277	5,421	5,856	1,220	1,170	50
2008/2009	90	12,084	5,740	6,344	1,309	1,253	56
2009/2010	90	12,728	6,001	6,727	1,326	1,268	58
2010/2011	108	13,652	6,525	7,127	1,322	1,255	67
2011/2012	108	14,155	6,672	7,483	1,494	1,402	92

Source: MONSTAT, Department for statistics on education, research and development, culture, judiciary and administration



ANNEX G

A SELECTION OF FINDINGS FROM THE 2011 HUMAN CAPITAL SURVEY (UNDP)

Job satisfaction. What is considered as a good job?

- A good job is a well-paid job regardless of whether it is permanent – is the position of only 5.5% Montenegrins. **Montenegrins (64%) would rather work in public administration for €450 than in the private sector for €750.**
- We are responsible for ourselves and one should provide for oneself – is the standpoint of only 15.3%. On the contrary, far more Montenegrins (41.7%) expects the Government **to be responsible for everybody to be provided for.** (The rest have an undetermined opinion regarding this issue.)
- Very concerning is the data that almost half of the respondents (48.5%) believe that the fact that one works hard does not necessarily mean that one will succeed in life – as life success is rather a matter of luck and good connections. Thus, **nine out of ten citizens (91.7%) believe that for making progress in life it is important to be well connected with people in high positions** and with political power. (45.5% believe it is of vital importance, while 46.2% believe it is important.)
- One-third (33.7%) of respondents believe that **salaries and incomes should be more balanced** (smaller differences between salaries). On the other hand, fewer people (26.1%) believe that the differences in salaries should be greater in order to stimulate employees to invest more efforts and commitment in their work.
- **Are we well paid for the job we do?** - One third of the employees (35.7%) don't think that they are paid enough, another third (30.8%) are satisfied and believe they are sufficiently paid for the job they do and the last third (33.5%) was not determined in this regard.
- Less than a half (44.4%) of employees in Montenegro find their job interesting and believe that their jobs offer professional development and the opportunity to learn something new. On the other hand, we are satisfied with the work environment as employees in Montenegro have good relations with colleagues and superiors (70.2%). Only one out of ten employees (9.4%) has poor relations with his/her co-workers and superiors. Half of the respondents (51.6%) perceive their job as demanding and too stressful. Still, most of us (71.8%) have a good work-life balance.
- **Job loss fear** - 23.8% of the respondents are afraid that they might lose their job in one year. Each fourth employee (39%) finds his/her job safe. The rest (37.2%) are indecisive in this regard. In case of job loss or leaving the present job, 37.7% of respondents believe it would not be easy for them to find a new job with a similar salary. On the other hand, there are almost as many of those (34.2%) who would easily find such a job.
- **23.2% of employees are looking for new jobs.** The reason is most often a wish to find a better-paid job (62.7%).
- **Only half of the employees (53.5%) do a job they were educated for.** Montenegrin labour force self-assess themselves as very capable, because **only 4.7% believe they need training to be able to cope with the job duties.** The rest feel fully capable in performing their jobs (48.7%) and, moreover, close to one-half (46.6%) of employees feel able to perform more demanding tasks than the ones they perform now.

Unemployed

- **Every second (52%) unemployed respondent has never worked. If offered a job, a bit less than half of the unemployed (48%) would be willing to go to work within two weeks' time.**

Parents' aspirations – Employment

- **The key development sectors in Montenegro are the energy sector, tourism and agriculture.** However, when we asked parents what are the sectors they would like their children to work - only 7.4% said it was the energy sector, 7.2% said tourism and 6.2% said in agriculture, forestry and water management. Most of the parents want their children to work in the financial/banking sector (17.4%), followed by public administration and social insurance (10.7%), transport, storage/logistics, and communications (including telecommunications) (9%), education (7.3%), etc.

- **Parents want their children to work within the public sector** (78.8%): in public administration (49.2%) or in a company owned by the state (29.6%). Only 14.8% parents want their children to work for a private business company.

Education, values, aspirations, social capital, satisfaction with the health system

- Nine out of ten citizens of Montenegro would prefer their child to attain higher education (89.8%) – university graduate level (58%) and postgraduate (31.8%). Citizens of Montenegro trust both the secondary and higher educational systems. Two-thirds (63.1%) of the respondents have trust and 18.1% have a great deal of trust in the secondary educational system to able to provide an adequate level of education. Similarly, 23.5% have a great deal of trust and 59.5% some trust in the ability of university to educate high-quality staff ready for employment.
- **We asked parents and grandparents** what the most desirable values one should encourage with children are. The most desirable thing to achieve is that children are responsible (13.2%), independent (12%), hardworking (11.8%), persistent (8.7%), and resourceful (8.2%). A little bit less attention should be paid to preserving traditional Montenegrin values (6.4%) or values such as honour and honesty, so these findings touch upon some identity issues. "Piety" scored lowest among values that should be encouraged with children (2.7%).
- Nine out of ten (92%) parents would prefer their child to live in a village, in a suburb in his/her own house, with a full-time job (average salary) and with some extra income from agriculture, rather than to have their child live as a tenant in Podgorica without a safe job.
- **The future of our children is our biggest concern, because respondents find that the natural and economic resources have been sold out**, i.e. that the future generations are left without sufficient resources. After that, our biggest concerns include: 2.) lack of income for living; 3.) corruption; 4.) illness; and 5. street crime. What concerns us the least is also very interesting: the possibility of losing our place of living due to eviction, inability to pay off loans, possibility of local religious and ethnic conflicts and lack of religious freedoms. The key problems to be solved for our children to live in a better country are economic ones: reduction of unemployment and economic development.
- **Citizens do not plan moving abroad** - every second respondent (53%) does not plan to move abroad, while 20.9% of respondents are considering the possibility of living abroad. Only one out of ten (11.7%) would like and is trying to find a way to leave Montenegro.
- **How much should teachers and doctors be paid?** Half of the respondents (51.4%), believe that the salaries of secondary school teachers should be twice the average salary in Montenegro, while 36.5% of the respondents think that their salaries should be at the average salary level. Salaries of doctors should be twice the average salary (45.8%) and three times the average salary (45.6%). Other medical staff should earn the average salary (34.6%) and twice the average salary (39.6%) in the respondents' opinion. Given the excellent, almost universal public healthcare coverage, it is somewhat surprising that more than half (53%) of the citizens of Montenegro are concerned about their access to health care, of whom 23% are very concerned. Healthcare quality is estimated as an average, i.e. neither good nor bad (5.1, on a 1 to 10 scale).
- If we assume that low pensions can be increased only by imposing higher taxes, which would inevitably mean less money for younger generations (kindergartens, schools, scholarships, sports and recreation), **up to which level should the pensions be raised?**: The majority (57.7%) believe it is necessary to increase pensions to a level which would allow pensioners to cover the basic costs of living, as well as some additional costs so that they could live a more comfortable life. Only 19.2% think that pensions should be raised to a level to allow pensioners to cover all costs of living comfortably and to manage to save some money and afford travelling.
- **Social capital**: Respondents say that **people cannot be trusted today** (64.3%). On the other hand, nine out of ten (88.9%) respondents have reported that they have a close friend. The majority (84.1%) do not do any voluntary work. Only 3.1% of citizens regularly volunteer (once a month).



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